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LILLY DIGEST 1986

A summary of the 1985 operations of 1,378 community pharmacies

The most comprehensive report of community pharmacy operations available

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Published annually as a service to community pharmacy in the interest of sound management

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Editor:
Carl H. Deiner, R.Ph.

Art Editor:
Charles Russell

Technical Assistance:
Jeanne Sutton
Grace Witte
Frances Fultz

Foreword

The LILLY DIGEST is a compilation of financial information voluntarily submitted by independent community pharmacists. It is designed for use by managers to evaluate pharmacy operating data. It also can be used to identify industry trends. The DIGEST simply summarizes the data of the pharmacies that were reported to it without editorial opinion. Each LILLY DIGEST participant received a personalized analysis of that pharmacy's operating data, with constructive suggestions for improvement where appropriate.

The self-analysis section of the DIGEST (pages 31 through 39) comprises 22 summaries of 1985 operating figures, arranged according to total sales volume and daily prescription activity. These are designed so that managers can easily isolate the summary that is most similar to their own for comparative analysis. A new feature in this section is comprised of figures which correlate sales and prescription activity with pharmacy hours open for business.

Eli Lilly and Company is sincerely grateful to the pharmacists who contributed their operating figures to the LILLY DIGEST. Without their support, the profession would lose this annual publication.

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Executive Summary

For the thirty-sixth consecutive year, the average LILLY DIGEST pharmacy reported higher sales and so set a new record at $593,918 (Table 1). Total sales grew 4% during 1985, well below the average annual growth rate of 9.2% observed over the past decade. Noteworthy is that the average growth rate since 1980 appears to have stabilized in the range of 5 to 6%. Although total sales increased during 1985, the cost of goods sold rose at an even faster rate, with the result that gross margin declined to 32.6% of sales—the lowest level since 1949. Percentagewise, total expenses downtrended, producing a lower net profit before taxes at 2.8% of total sales.

Prescription sales again grew at a brisk 7% in contrast to a 0.7% decline in other sales. Prescription income accounted for over 62% of total sales volume in the typical community pharmacy, a new high.

Gross margin in dollars increased almost 3% but declined to 32.6% as a percent of sales. Total expenses fell to a record low of 29.8% of total revenue. This reduction was the result of a decline in employees' wages, which more than offset an increase in proprietor's salary and in miscellaneous operating costs. The combined effect of these changes was that net profit before taxes fell 4.7% in dollars to equal 2.8% of total sales.

Although total expenses declined percentagewise, they increased dollarwise (up about $6,000, or 3.5%, from the previous year). Average proprietor's or manager's salary rose both in dollars (up about $1,900) and as a percent of sales (up to 5.9%). Employees' wages increased in dollars but declined as a percent to 10.2% of sales. Rent advanced over 5% in dollars but remained unchanged as a percent of sales at 2.4%. Miscellaneous operating costs increased by about $3,100, a 4.8% increase over the previous year's figure. In addition, these costs took up a larger share of the sales dollar—up from 11.2% to 11.3% of total revenue.

Managers usually attempt to offset a rising cost of goods sold either by raising prices when competition allows, reducing purchase prices, or reducing expenses so that net profit goals are realized. However, the net effect of these changes was not enough to offset the rise in the cost-of-goods-sold figure, and the result was a decrease in net profit before taxes from 3.1% to 2.8% of sales. Return on investment, perhaps the single most important measure of business effectiveness, declined to 20.0%—the lowest figure in more than ten years (page 29).

Net profit before taxes showed an $812 decrease from the previous year—down 4.7%. The decline in net profit was more than offset by the increase in proprietor's salary, with the result that total income for the proprietor rose over $1,000 to about $52,000 before taxes. However, proprietor's income dropped percentagewise from 8.9% to 8.7% of sales.

Prescription revenue was greater dollarwise and as a percent of sales when compared with the previous year's figures. The higher revenue for 1985 resulted essentially from a $1.04 increase in the average prescription charge, since the number of total prescriptions dispensed fell 1.5%. The average prescription charge rose from $12.00 to $13.04.

Total inventory dollars increased from the year earlier; however, inventory as a percent of sales declined to 14.9%. Prescription inventory required about $2,600 more in 1985 but remained unchanged as a percent of prescription sales at 10.5%. Other merchandise inventory was slightly higher in dollars and rose to 22% of other sales.

Merchandise selling space in the average independent community pharmacy rose about 8% to approximately 2,700 square feet during 1985. However, sales productivity per square foot of floor area fell some $9 to about $220. This decline resulted from an increase in floor space, which was disproportionate to the advance in total sales volume. The hours of operation in the typical LILLY DIGEST pharmacy remained unchanged for 1985 at 62 hours per week.

Selected operating data expressed in terms of pharmacy hours open provide interesting figures for comparison. During 1985, prescription sales per pharmacy hour open grew 7% to almost $115. In contrast, other sales per store hour open declined slightly to under $70. Total prescriptions dispensed per hour of operation fell slightly to 8.8 from 8.9.

Balance sheet—Table 2 summarizes the balance sheet data submitted by 1,009 pharmacies. When compared with 1984 figures, net working capital increased by $4,400 (up 6.2%). This was the result of a $5,406 rise in current assets (up 5.2%) against a $1,006 increase in current liabilities (up 3%). Net worth rose by over $3,500 (up 4.7%) during 1985; as a percent of sales, it increased from 16.2% to 16.4%. This rise in net worth, coupled with the decline in net profit before taxes, produced the smallest return on investment in over ten years at exactly 20%.

Table 1 *Current trends in pharmacy operations*

Averages per Pharmacy	1985 1,378 Pharmacies	1984 1,341 Pharmacies	Amount and Percent of Change
Sales			
Prescription	$369,595— 62.2%	$345,435— 60.5%	+$24,160— 7.0%
Other	224,323— 37.8%	225,878— 39.5%	−$ 1,555— 0.7%
Total	$593,918—100.0%	$571,313—100.0%	+$22,605— 4.0%
Cost of goods sold	400,255— 67.4%	382,757— 67.0%	+$17,498— 4.6%
Gross margin	$193,663— 32.6%	$188,556— 33.0%	+$ 5,107— 2.7%
Expenses			
Proprietor's or manager's salary	$ 35,196— 5.9%	$ 33,301— 5.8%	+$ 1,895— 5.7%
Employees' wages	60,316— 10.2%	60,126— 10.5%	+$ 190— 0.3%
Rent	14,166— 2.4%	13,428— 2.4%	+$ 738— 5.5%
Heat, light, and power	5,040— 0.8%	4,934— 0.9%	+$ 106— 2.2%
Accounting, legal, and other professional fees	2,678— 0.5%	2,529— 0.4%	+$ 149— 5.9%
Taxes (except on buildings, income, and profit) and licenses	9,148— 1.5%	8,896— 1.5%	+$ 252— 2.8%
Insurance (except on buildings)	5,978— 1.0%	5,958— 1.0%	+$ 20— 0.3%
Interest paid	4,930— 0.8%	4,555— 0.8%	+$ 375— 8.2%
Repairs	2,335— 0.4%	2,233— 0.4%	+$ 102— 4.6%
Delivery	2,260— 0.4%	2,347— 0.4%	−$ 87— 3.7%
Advertising	6,589— 1.1%	6,033— 1.1%	+$ 556— 9.2%
Depreciation (except on buildings)	7,701— 1.3%	6,945— 1.2%	+$ 756—10.9%
Bad debts charged off	865— 0.1%	1,029— 0.2%	+$ 164—15.9%
Telephone	2,353— 0.4%	2,177— 0.4%	+$ 176— 8.1%
Miscellaneous	17,545— 3.0%	16,690— 2.9%	+$ 855— 5.1%
Total expenses	$177,100— 29.8%	$171,181— 29.9%	+$ 5,919— 3.5%
Net profit (before taxes)	$ 16,563— 2.8%	$ 17,375— 3.1%	−$ 812— 4.7%
Add proprietor's withdrawals	35,196— 5.9%	33,301— 5.8%	+$ 1,895— 5.7%
Total income of self-employed proprietor (before taxes on income and profits)	$ 51,759— 8.7%	$ 50,676— 8.9%	+$ 1,083— 2.1%
Value of inventory at cost and as a percent of sales			
Prescription	$ 38,939— 10.5%	$ 36,343— 10.5%	+$ 2,596— 7.1%
Other	49,375— 22.0%	49,115— 21.7%	+$ 260— 0.5%
Total	$ 88,314— 14.9%	$ 85,458— 15.0%	+$ 2,856— 3.3%
Annual rate of turnover of inventory	4.6 times	4.6 times	
Size of area and sales per square foot*	sq. ft.	sq. ft.	
Prescription	427 $859.74	398 $867.31	+ 29— 7.3%
Other	2,245 98.37	2,073 106.81	+ 172— 8.3%
Total	2,672 219.98	2,471 229.36	+ 201— 8.1%
Number of prescriptions dispensed			
New	14,086— 49.7%	13,975— 48.6%	+ 111— 0.8%
Renewed	14,261— 50.3%	14,801— 51.4%	− 540— 3.7%
Total	28,347—100.0%	28,776—100.0%	− 429— 1.5%
Prescription charge	$13.04	$12.00	+$ 1.04— 8.7%
Number of hours per week			
Pharmacy was open	62 hours	62 hours	no change
Worked by proprietor	49 hours	48 hours	+ 1— 2.1%
Worked by employed pharmacist(s)	36 hours	38 hours	− 2— 5.3%
Sales and prescription activity per pharmacy hour open			
Prescription sales	$114.64	$107.14	+$ 7.50— 7.0%
Other sales	$ 69.58	$ 70.06	−$ 0.48— 0.7%
Prescriptions dispensed	8.8	8.9	

*Based on averages of pharmacies that reported all data

NOTE: These national averages are presented to give a composite picture of the average LILLY DIGEST pharmacy. Comparisons for analysis should be based on the operations of pharmacies of comparable sales and prescription size which appear in one of the 22 arrangements in the Self-Analysis section of the LILLY DIGEST.

Table 2 *Current trends in balance sheet information and financial ratios*

Averages per Pharmacy	December 31, 1985 (1,009 Pharmacies)	Percent of Sales	December 31, 1984 (948 Pharmacies)	Percent of Sales	Amount and Percent of Change
Assets					
Current assets					
Cash	$ 16,907— 12.4%	3.5%	$ 16,380— 12.8%	3.6%	+$ 527— 3.2%
Accounts receivable	19,518— 14.4%	4.1%	18,063— 14.2%	3.9%	+$ 1,455— 8.1%
Inventory	73,297— 54.0%	15.3%	69,873— 54.7%	15.2%	+$ 3,424— 4.9%
Total current assets	$109,722— 80.8%	22.9%	$104,316— 81.7%	22.7%	+$ 5,406— 5.2%
Fixed assets					
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	19,444— 14.3%	4.1%	17,581— 13.8%	3.8%	+$ 1,863—10.6%
Other assets					
Prepaid expenses, deposits, etc.	6,676— 4.9%	1.4%	5,723— 4.5%	1.3%	+$ 953—16.7%
Total assets*	$135,842—100.0%	28.4%	$127,620—100.0%	27.8%	+$ 8,222— 6.4%
Liabilities					
Current and accrued liabilities					
Accounts payable	$ 20,453— 15.1%	4.3%	$ 19,470— 15.3%	4.3%	+$ 983— 5.1%
Notes payable (within one year)	8,355— 6.2%	1.7%	6,894— 5.4%	1.5%	+$ 1,461—21.2%
Accrued expenses and other liabilities	5,496— 4.0%	1.1%	6,934— 5.4%	1.5%	−$ 1,438—20.7%
Total current and accrued liabilities	$ 34,304— 25.3%	7.1%	$ 33,298— 26.1%	7.3%	+$ 1,006— 3.0%
Long-term liabilities					
Notes payable (later than one year)	23,528— 17.3%	4.9%	19,835— 15.5%	4.3%	+$ 3,693—18.6%
Total liabilities	$ 57,832— 42.6%	12.0%	$ 53,133— 41.6%	11.6%	+$ 4,699— 8.8%
Net Worth	78,010— 57.4%	16.4%	74,487— 58.4%	16.2%	+$ 3,523— 4.7%
Total liabilities and net worth*	$135,842—100.0%	28.4%	$127,620—100.0%	27.8%	+$ 8,222— 6.4%
Net working capital	$ 75,418	15.8%	$ 71,018	15.5%	+$ 4,400— 6.2%
Sales	$478,297	100.0%	$458,410	100.0%	+$19,887— 4.3%
Purchases	$320,729	67.1%	$310,423	67.7%	+$10,306— 3.3%
Net profit (before taxes)	$ 15,630	3.3%	$ 16,019	3.5%	−$ 389— 2.4%

Financial Ratios		
Current assets to current liabilities	3.2 times	3.1 times
Net sales to net worth	6.1 times	6.2 times
Net profit (before taxes) on net worth	20.0%	21.5%
Total debt to net worth	74.1%	71.3%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

Computers in Community Pharmacy Practice: Will They Affect Your Practice?

Arthur A. Nelson, Jr., R.Ph., Ph.D.*

The computer is the single most important factor affecting pharmacy practice and operations in the last 20 years! Such an assertion is dramatic, but the impact that computer systems have had on pharmacy practice to date is dramatic. Its effect on the future will be revolutionary.

One statistic that demonstrates the growing awareness of the computer's potential is the rate of growth for pharmacy installations. The data in Figure 1 depict the estimated number of pharmacy computer systems sold during the period 1984 through 1986. Note that the rate of growth appears dramatic. The number of installed systems is projected to more than double. About 20% of the sales in 1985 were second time purchases, further evidence of the growing desire for more powerful, complex systems.

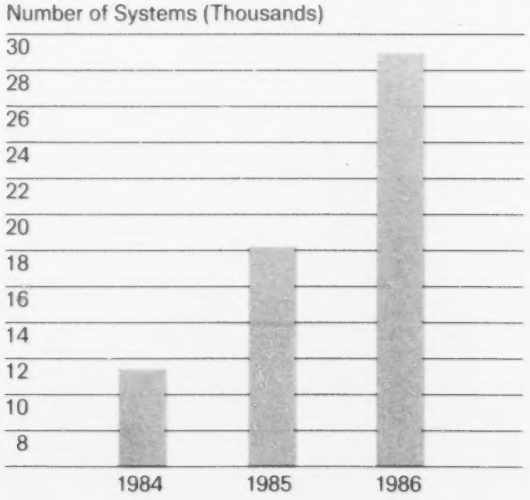
The implications of these statistics are astounding when the growth rate for pharmacy systems is compared with the general trend in the total market for personal computer sales. The years 1985 and 1986 generally have been down periods for computer sales. As one market observer commented, "The fuel that fired the market (for personal computers) since the beginning of the decade dried up."[1] The industry struggled with a massive oversupply, major price reductions, and significant "belt tightening." Computer software vendors experienced the same reductions in demand. Despite the apparent softening of the computer market for the general public, major vendors who sold retail pharmacy systems reported record sales years. Of greater importance, the rate of growth does not seem to be abating. By the end of 1986, it is estimated that 50% to 55% of all retail pharmacies (chain and independents) will utilize a computer in their practice. By the end of the decade, it is not unreasonable to expect the computer to become as commonplace in pharmacies as the cash register is today.

This rosy projection is based on the realization that (1) the price of an entry-level pharmacy system is rapidly approaching the price of the cash register and (2) the competitive nature of the marketplace will soon make it impossible for a pharmacy to remain economically viable without having access to the information that only a computer can provide. The computer is truly becoming indispensable to pharmacy practice.

*Arthur A. Nelson, Jr., R.Ph., Ph.D., is Professor of Pharmacy Practice at the University of Nebraska Medical Center.

Figure 1

Estimated Number of Pharmacy Computer Systems 1984-1986



As the computer proliferates, the questions that naturally arise are: Why is the computer so important? What can I do with a computer that I cannot do without one? The answer to these questions will be our focus. We will examine the effect of the computer on five areas: (1) productivity, (2) store revenue, (3) management practices, (4) professional activities, and (5) education. Recent advances in the technology and applications will be contrasted to the potential impact on the future.

Effect on Pharmacist's Productivity

The biggest impact of the computer to date has been on increasing the productivity of the pharmacist. The computer is a natural at performing routine, repetitive, mundane, paper-oriented tasks. Precise attention to details is critical in pharmacy practice, but retail practitioners are overburdened with routine, repetitive tasks that are ideal for a computer.

Consider the time saved in typing renewal prescription labels, updating patient profiles, posting accounts receivable, completing income tax forms, completing third-party prescription claim forms, calculating the prescription price, and the list continues on and on. Enhancing productivity by reducing the paper-work explosion is usually the primary reason a pharmacist seeks to secure his first computer system.

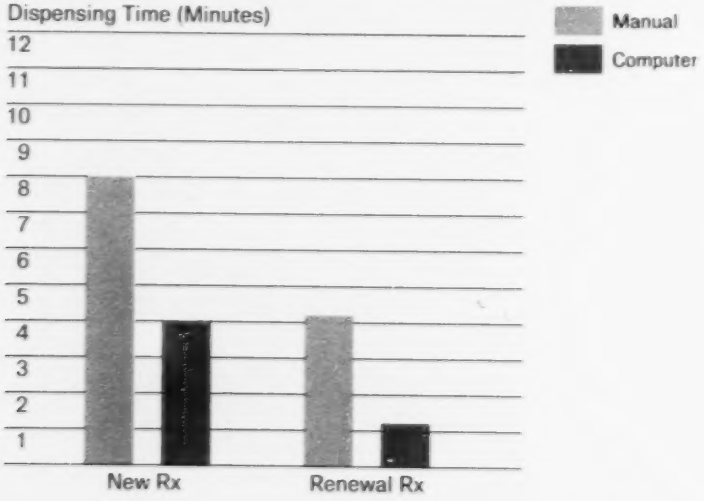
The pleasures derived from a reduction in paper work are the humanistic advantages of a computer, but do not overlook the important gains in productivity and accuracy from using automated techniques to perform these tasks. The data in Figure 2 reflect the magnitude of the productivity increase with a computer system. It is a generally held standard that new prescriptions can be dispensed in about half the time required with a manual system. The time savings with prescription renewals is even greater. A two-thirds reduction in time required to process prescription renewals is dramatic. It does not take graphic presentation to show the time savings enjoyed with the computer on tasks such as income tax and insurance reports, maintenance of individual patient records, and completing third-party prescription claim forms. The computer actually makes these tasks a realistic, cost-efficient service to offer your clients. The productivity gains are so great that one pharmacist can provide services to 100-120 patients per eight-hour work day. The same workload without a computer would require two pharmacists.

Enhanced productivity should be translated into reduced cost of operating the pharmacy. Given the extremely competitive nature of pharmacy practice today, without the cost reductions derived from increased productivity, the market pressure of reduced prescription margins would have dramatic effects on a pharmacy's ability to be profitable. This is especially true in the market for maintenance prescriptions.

What is next on the horizon? The key words are ROBOTICS and ARTIFICIAL INTELLIGENCE. There are prototype systems available today in which a

Figure 2

Estimated Time Savings per Prescription with Computer-Based Dispensing Function



dispensing robot, linked with an artificial intelligence computer, can approach judgmental decision making.

The impact of the computer-driven robot on pharmacy manpower and the professional implications in pharmacy practice are certainly beyond the focus of this article. However, the effect of the technology on enhanced productivity for the pharmacist is real and must be recognized as a tool of practice that will become standard within the century.

Effect on Sales

The gains in productivity are real and can have a positive effect on the "bottom line" by decreasing the cost of operating the pharmacy. However, the computer is a tool that can also help the pharmacy realize increased sales revenue. Many techniques are viable, but four major activities have the biggest impact: (1) recover lost prescription records; (2) adjust price increases; (3) generate refill reminders; and (4) target clients for special promotional activities.

Filing prescriptions serially in the order in which they were dispensed is the time-honored, traditional method employed by most pharmacists. Some practitioners have developed manual systems to file prescriptions by family, but until the computerized patient profile, most pharmacists had difficulty in finding prescriptions when the customer lost the prescription number.

The most significant contribution to enhanced sales revenue is the computer's advantage in maintaining current prescription prices. With a computer-generated price update service available from several vendors, the pharmacy can easily and cost-effectively accomplish this. Another pricing technique enhanced by use of the computer is most apparent with renewal prescriptions. You may have been hesitant to increase the price of prescription renewals even though the cost of the item dispensed or of the container increased. The impact, however, is measurable.

For example, suppose an item cost $10 per hundred. You dispense a renewal prescription for 60 units. Therefore, your cost is $6. Further assume that you make 5% net profit before taxes on prescription revenue, and your usual fee for items costing $6 is $3.50. What effect would NOT passing the price increase to the patient have?

Charging the same price would mean the patient would pay $9.50. If the price of the container and ingredient increased 10%; then the drug cost would be $6.60. With a $3.50 fee, if you did not increase the price accordingly, you would achieve a $2.90 gross margin ($3.50 fee less 60¢ increased cost). What effect would this reduced margin have on profit? If the original prescription price yielded a 5% pretax profit, then the dollar profit on the original prescription would be about 48¢. However, assuming operating costs are constant, with a 60¢ reduction in margin, you would be *losing* 12¢ on the prescription renewal. The computer can vividly demonstrate the impact of price increases on prescription gross margin.

A major problem in pricing has been establishing the price level of individual items to remain competitive while still achieving a target profit. To illustrate, how would you establish the price for vitamin products to be sure that you achieve an overall margin of 30% in this department? Unless you have information on product movement, margin on all products in the department, and turnover, you could not possibly achieve a target margin in the vitamin section.

These data could have been collected to develop a pricing strategy, but the time required to collect the requisite information makes the job impossible. With the computer, however, large quantities of information can be processed to achieve such a goal. Data are needed on product movement to establish the brands and quantities of product to stock on the basis of national sales averages. Then, using information on typical product costs, the computer can be programmed to model the prices needed on each product to obtain the target gross margin. You select the margin to be achieved. The computer program will establish a price for each product to achieve the targeted margin.

Several of the pharmacy systems available use data from the store's prescription records to accomplish the same type of price modeling function for prescription pricing. The computer can process the information in a fraction of the time it would take to make the same calculations manually.

The ability of the computer to query the prescription data base can be used for other revenue-generating activities. Some pharmacy software can profile those clients and physicians who account for either a significant portion of your sales or, conversely, a very small portion. Depending on your strategy, you can then design a marketing program to appeal specifically to these "targeted" clients. Perhaps you can encourage repeat business from new or infrequent clients by sending them a direct-mail advertisement including a coupon or gift offer if they return to your store and make another purchase within a stated time period. Perhaps you wish to "reward" loyal

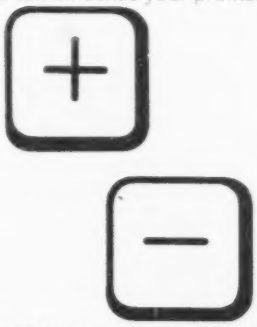
clients by offering a special deal "in appreciation of their record of being a loyal customer." Regardless of your strategy, the computer can assist by identifying those customers or physicians who meet specific criteria you want to use to enhance your business. Selective, direct appeals are more cost-effective than mass mailing or spontaneous promotions.

Another method of enhancing revenue through the effective use of the computer is to establish a reminder program for renewal prescriptions of maintenance medications. Your pharmacy software should have the ability to identify individual prescriptions that will be due for renewal in four to seven days, assuming the patient has been compliant. A postcard reminder to the client may increase your chances of obtaining a renewal that might otherwise have been disregarded.

Once your clients realize you are monitoring their compliance, human behavior experts agree that you will probably increase their compliance, thus benefiting the patient with better disease control and benefiting your sales revenue through a greater volume of renewal prescriptions.

Effect on Management

The productivity increases and revenue enhancements discussed to this point are easily observed. Most of the managerial service and efficiencies that will be discussed in the remaining pages are intangible. Hence, pharmacists have been somewhat slow in implementing them. Nevertheless, these factors are real and can influence your profitability.



As emphasized before, the computer gives you access to information that is not easily obtained in a manual system. Not having this information will not mean you cannot get your job done, but the information, if used effectively, can make your management tasks easier and more effective.

The information captured in the computer enhances your ability to control operating costs, pursue a pricing strategy, process third-party prescription claim forms in a more accurate and cost-effective manner, design promotional strategies targeted to specific customers, and even plan cash flow. The skill with which you use the management information available can mean the difference between making a profit and incurring a loss.

A major cost factor and managerial challenge for every pharmacist is inventory control. The computer can be a tool to optimize the pharmacy's dollar investment in inventory by analyzing product usage rates, seasonality, and shifting demand. The effect of optimized inventory on profitability is dramatic. Two items are most important: (1) reduction in stock-outs, thereby a reduction in lost sales, and (2) reduced inventory carrying costs.

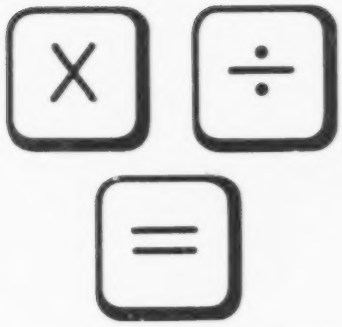
Lost sales are difficult to quantify, but everyone has had the experience of going to a store to purchase a specific product and finding it out-of-stock. Generally, you took one of three actions. You went to another store, postponed your purchase, or purchased another product. Most customers will choose the option of shopping at another store. If you experience stock-outs too frequently at a particular store, you tend to develop the image of that store as a low-service establishment. You will most likely choose another store to patronize.

Even if the customer decides to wait or purchase another item, that action could be costly to you. When a customer delays a purchase, there is a reduced likelihood that you will get the sale. Even if the customer accepts a substitute product, you could lose. The item purchased may have had a lower margin. You lose. Or perhaps the product was not satisfactory. Again, you lose. Hence, the importance of maintaining adequate stock can be significant.

You will not lose sales because of stock-outs if you fill the shelves with inventory, but there is a down side to this strategy. It is the cost of maintaining inventory.

Calculating the cost of excessive inventory is easy. As a rough estimate, inventory carrying costs are approximately equal to the interest rate at which you can borrow money at your local bank plus 12 points (to estimate the cost of handling, insurance, taxes, pilferage, etc.). For example, if you can borrow money at 12% per year, then 12% interest + 12 points equals 24% annual inventory carrying cost. If your pharmacy has $10,000 in excess inventory, then the annual cost for maintaining that extra inventory would be $2,400 ($10,000 × 24%). Although no accountant ever includes a category entitled "Inventory Carrying Costs" on an income statement, it is surely a cost of business—an oppor-

tunity cost. If you did not have the $10,000 invested in excess inventory, then these funds could be working for you in another investment. By tracking usage rates, order quantities, and stock outs, the information from the computer can help you set an optimal inventory level for all leading items, thereby reducing the cost of excess inventory while still maintaining a high level of customer service.



The use of the computer in third party prescription claims processing was an early productivity tool desired by pharmacists. This is only one aspect to the payoff of a computer with third party programming. Combining the efficiency of completing the claim forms, speeding cash flow by transmitting information on a diskette or tape rather than paper forms (a service available through most third party programs), fewer processing errors that slow the payment cycle, and improving your margin through billing with accurate, current prices rather than past purchase prices can all be dramatic management payoffs with the computer.

The use of word processing capabilities improves the ease and quality of correspondence, which creates a quality image. Word processing capabilities also allow you to easily develop promotional newsletters that can be directed to specific customers. Other management tools, such as maintaining employees' records, performing accounting functions, and budgeting are all possible with the computer. These activities are outside the normal use of the computer, but each of these functions and many more are available through commercially available software that will run on your pharmacy system.

Effect on Professional Activities

Pharmacy is a knowledge profession. This assertion, first made popular by the 1975 Millis Commission Report on the future of pharmacy,[2] recognizes the importance of the pharmacist's ability to access and disseminate drug information. Your ability to do this can be greatly enhanced with a computer. Consider the process of monitoring drug therapy. With the automated patient profile, the pharmacist is now able to monitor medication dosage compliance, drug drug interactions, drug disease interactions, and unique patient allergies. These levels of patient care were only haphazardly performed before the use of computers. But patient monitoring is only one of the professional functions that can be enhanced with a computer.

A major professional role for the pharmacist has long been to serve as a readily available source of drug information for patients and other health care practitioners. Two relatively new software applications will have a major impact on this area. First is the advent of telecommunication linkages between the pharmacy system and other computer-based information resources. Initial applications were the "on-line" data bases that could be queried through a modem. For example, a pharmacist in even the remotest areas of the country can connect with the National Library of Medicine's data base of medical literature. This massive computer data base contains all the medical and pharmaceutical articles written in every medical journal published. It is no longer necessary to maintain an extensive reference library in a pharmacy. The access to extensive, current drug information through the computer-based telephone interface with these on-line data services is far superior to the manual references in providing current information at a lower cost. These applications will increase, truly giving every pharmacist the opportunity to utilize extensive medical libraries from the convenience of the pharmacy.

Using the telecommunication technologies, a retail pharmacist can realistically be expected to access specific patient information directly from the patient's hospital record or the physician's office computer. This innovative application has already been introduced by General Computer Corporation. Called "Pharm-Link," it has made possible expanded patient monitoring by sharing information between the physician's office and the pharmacy. Applications such as Pharm-Link will surely expand as physicians and pharmacists learn the value of having access to the specific patient information that each health professional has. Both parties will be able to fulfill their responsibilities at a higher level and at lower cost.

The second major information processing application is instant access to complete drug information resources within your computer. Individuals who became early enthusiasts of the microcomputer envisioned the day when the answer to any question could be stored in the system and recalled in a

moment. The computer would truly become an extension to one's memory. Only recently has the technology advanced to the level that this dream can be realized.

A glimpse of the future is seen in an innovative software program that runs concurrently with other primary applications (i.e., your pharmacy dispensing application) to give instant access to reference information. The first applications that have been commercially available are the dictionary and thesaurus. In brief, the program is active in your system but runs in the background, not interfering with your primary program until you execute a key stroke command to activate the program. The impressive feature of this new type of software is its ability to search massive reference sources in one or two seconds to give an instant response to your inquiry. For example, the technology exists today to maintain a drug information data base with the common dose, side effects, and indications for 50,000 products that could be accessible with one key command at your computer terminal without terminating your prescription dispensing program. As the need arises, you could query the drug information file, then return to the dispensing program, never leaving the keyboard. The implications of such software applications are limitless.

These applications, and many more yet unforeseen, have the opportunity to expand the professional functions of the pharmacist. With the computer's assistance in the dispensing activities, these higher-level professional functions become cost-effective in both time and quality of patient care. Their effect on a pharmacy's profitability is indirect, but any function which enhances the pharmacist's ability to serve patients better without significantly increasing costs will have a positive influence on building patronage.

Effect on Education

Schools and large corporations have begun to use the computer as an effective teaching tool. Although commercially available programs to assist in learning the use of word processing, electronic spreadsheets, and the like have been available for some time, only recently have programs been developed to use the computer as a tool specifically for pharmacists' education.

Eli Lilly and Company recently announced the Lil Digest Computerized Pharmacy Management Ser a computer-assisted continuing education progra that opens a whole new area for pharmacists. Us the excitement, convenience, and effectiveness of computer for self-instruction, this series provides learners with the opportunity to enter their own pharmacy's financial information to perform "Wh If" analyses. The management techniques present become more relevant to the learners because th are able to see the impact that using these techniques could have on their own store's profitabilit Using actual financial data adds realism to the lea ing process and gives the learners the opportunit enhance their pharmacy's profitability by applyin the techniques taught.

Such innovative educational techniques are simpl the beginning of the type of educational program ming that will be available to the pharmacist. The computer-aided continuing education program is interesting, convenient, and effective way to com plete continuing education.

Quality job training is a costly process. It takes va able time of skilled workers and management to teach the basic concepts and store policies and p cedures. Think of the advantage of having a serie computer-based learning units for teaching basic store operations. They could reduce the cost and time of on-the-job training. You will be able to ensure a high level of learning without the burde of time required for new employees.

Summary

Many pharmacists view a computer system as a gle-purpose, expensive typewriter. This could no further from the truth. The computer is a tool. Ph macists are just beginning to envision some of th dramatic effects the computer will have on the w the profession is practiced. As a tool, it will prog improve, and become more useful to those who learn best how to use it. The value of the compu for you will be limited only by your own desires expectations.

1. Anon.: *Computer Talk for Pharmacy*, Vol. 6, No. 1, Jan./Fe 1986, p. 17.
2. *Pharmacists for the Future*, Health Administration Press, A Arbor, Michigan, 1975.

Sales Volume Summary

A major objective for pharmacy management is to maximize sales. However, it is equally important to control operating and merchandise costs so that an adequate net profit and return on investment are realized. Sales volume and growth provide the foundation for a successful operation, but any sales program must be accompanied by operating efficiencies to ensure the continuation of the business.

Sales volume levels and operating statistics vary widely among different types of pharmacies. Therefore, when these data are used for comparative purposes, consideration should be given to the kind of operation under evaluation.

Table 3 shows how selected major operating statistics vary with sales volume. As noted in previous years, gross margin and total expenses tend to decline percentagewise as total sales increase. However, gross margin falls faster than expenses, with the result that net profit tends to decrease. The influence of the total wage package on expenses is seen in Table 3. Proprietor's salary generally declines percentagewise as total sales rise, whereas employees' wages tend to increase. Since the total wage package has a substantial impact on total expenses and, therefore, on net profit, management's goal should be to increase output per personnel hour. In most cases, full productivity is a function of the business available to the pharmacy rather than the disposition of employees to be fully utilized. Therefore, the timing of the hiring of new employees is a most important decision.

Gross Margin—The gross margin percentage tends to decrease as sales volume advances. The ratio of prescription sales to total sales also falls as total sales increase. Pharmacies with total sales under $200,000 reported prescription revenue of 78.5% of sales and a gross margin of 35.7%. Stores with sales in excess of $1,500,000 recorded prescription activity amounting to 41.6% of total sales and a gross margin of 30%. Since the high-volume stores averaged both a lower share of prescription revenue and a lower gross margin, a greater proportion of sales were evidently derived from departments generating margins lower than those in the professional area.

Expenses—Since many expenses incurred by a pharmacy are fixed, total expenses appear high as a percent of sales when sales volume is below $200,000, as in newly opened operations. As sales grow, this fixed portion tends to decline percentagewise and results in a gradual decrease in total expenses—from 35% to 28.2%.

Compensation—The total wage package represents a significant portion of the total expense figure and, therefore, has a major influence on net profit. Proprietor's salary increases from over $20,000 in the lowest-volume pharmacies to over $61,000 in stores generating over $1,500,000 in sales. However, percentagewise, proprietor's salary declined from 13% to 3.1%. Employees' wages showed the opposite trend; they ranged from 6.0% of sales in the smallest sales category to 11.9% in the highest. This greater expenditure for employees' wages is certainly associated with a larger staff needed to operate a merchandise-oriented pharmacy having longer business hours. The increased prescription activity in these high-volume units, with the corresponding increase in employed pharmacist hours, is a major contributor to the employees' wage figure.

Miscellaneous Operating Costs—This expense figure moves in a relatively narrow range and shows no definitive trend as sales advance. Since these costs account for about one-third of total expenses, control of each expense item must be maintained to ensure acceptable profitability.

Rent—Generally, rent remains relatively constant percentagewise as sales rise. However, rental dollars vary according to pharmacy size and location. In newer operations, rent may appear high as a percent of sales because full sales potential has not been attained. This subject is discussed more thoroughly on pages 22 and 23.

Net Profit—No definitive relationship between net profit and sales volume can be gleaned from Table 3. Interestingly, the lower and higher sales volume pharmacies tend to show a smaller net profit as a percent of sales than the mid-range stores. A more detailed discussion of net profit can be found on page 21.

Inventory—Typically, the largest investment in the average pharmacy is merchandise inventory, and, as such, its control significantly influences profitability. An effective inventory-control program usually includes purchases commensurate with sales, allowing for seasonal variation and changing usage patterns, as well as monitoring for pilferage. The challenge of productive inventory management is to support an upward trend in sales while keeping the investment at the lowest level consistent with adequate customer service.

A widely used measure of the effectiveness of an inventory control system is the "turnover ratio." It is the number of times the average inventory is sold and replaced during the year.

Table 3 *Summary of sales volume in 1985*

Averages per Pharmacy	Total Sales Under $200,000 (88 Pharmacies)	Total Sales $200,000 to $250,000 (81 Pharmacies)
Sales		
Prescription	$124,280— 78.5%	$170,101— 76.6%
Other	33,979— 21.5%	51,976— 23.4%
Total	$158,259—100.0%	$222,077—100.0%
Cost of goods sold	101,803— 64.3%	144,052— 64.9%
Gross margin	$ 56,456— 35.7%	$ 78,025— 35.1%
Expenses		
Proprietor's or manager's salary	$ 20,610— 13.0%	$ 23,573— 10.6%
Employees' wages	9,479— 6.0%	16,096— 7.2%
Rent	6,275— 4.0%	6,207— 2.8%
Miscellaneous operating costs	19,007— 12.0%	27,942— 12.6%
Total expenses	$ 55,371— 35.0%	$ 73,818— 33.2%
Net profit (before taxes)	$ 1,085— 0.7%	$ 4,207— 1.9%
Add proprietor's withdrawals	20,610— 13.0%	23,573— 10.6%
Total income of self-employed proprietor (before taxes on income and profits)	$ 21,695— 13.7%	$ 27,780— 12.5%
Value of inventory at cost and as a percent of sales		
Prescription	$ 18,915— 15.2%	$ 22,141— 13.0%
Other	9,203— 27.1%	16,687— 32.1%
Total	$ 28,118— 17.8%	$ 38,828— 17.5%
Annual rate of turnover of inventory	3.6 times	3.7 times
	sq. ft.	sq. ft.
Size of area and sales per square foot*	1,269 $123.99	1,607 $138.09
Rent per square foot*	$4.94	$3.86
Number of prescriptions dispensed		
New	5,028— 50.4%	6,693— 48.8%
Renewed	4,950— 49.6%	7,010— 51.2%
Total	9,978—100.0%	13,703—100.0%
Prescription charge	$12.46	$12.41
Number of hours per week		
Pharmacy was open	51 hours	53 hours
Worked by proprietor	48 hours	49 hours
Worked by employed pharmacist(s)	5 hours	17 hours

*Based on averages of pharmacies that reported all data

Table 3 shows that the turnover rate tends to increase with rising sales volume, even though the inventory dollar investment is greater.

Pharmacy Hours—As shown in Table 3, the number of hours a pharmacy is open is directly related to sales volume. During 1985, the average independent community pharmacy was open 62 hours per week—unchanged from the previous year. Pharmacies in the lower-sales categories (under $450,000) were open fewer than 60 hours per week. Stores with annual sales between $450,000 and $1,000,000 were open from 60 to 68 hours per week. Those with sales in excess of $1,000,000 ranged from 71 to 78 hours of operation per week. Management's decision to remain open longer apparently is based on the profitability of the extended hours. Additional operating expenses must be offset by sales generated during the extra hours, or net profit will be reduced.

The number of hours worked by employed pharmacists tended to be lower during 1985 when compared with similar-sized pharmacies for 1984. The

Total Sales $250,000 to $300,000 (84 Pharmacies)	Total Sales $300,000 to $350,000 (126 Pharmacies)	Total Sales $350,000 to $400,000 (116 Pharmacies)	Total Sales $400,000 to $450,000 (107 Pharmacies)
$198,771— 71.6%	$235,325— 72.8%	$266,937— 71.4%	$300,028— 70.8%
78,724— 28.4%	87,962— 27.2%	106,822— 28.6%	123,974— 29.2%
$277,495—100.0%	$323,287—100.0%	$373,759—100.0%	$424,002—100.0%
184,806— 66.6%	214,482— 66.3%	248,857— 66.6%	279,061— 65.8%
$ 92,689— 33.4%	$108,805— 33.7%	$124,902— 33.4%	$144,941— 34.2%
$ 26,670— 9.6%	$ 28,646— 8.9%	$ 28,559— 7.6%	$ 32,756— 7.7%
19,873— 7.2%	25,679— 7.9%	29,920— 8.0%	39,351— 9.3%
7,567— 2.7%	7,876— 2.4%	9,629— 2.6%	10,208— 2.4%
30,986— 11.2%	36,977— 11.6%	47,386— 12.6%	47,907— 11.3%
$ 85,096— 30.7%	$ 99,178— 30.8%	$115,494— 30.8%	$130,222— 30.7%
$ 7,593— 2.7%	$ 9,627— 2.9%	$ 9,408— 2.6%	$ 14,719— 3.5%
26,670— 9.6%	28,646— 8.9%	28,559— 7.6%	32,756— 7.7%
$ 34,263— 12.3%	$ 38,273— 11.8%	$ 37,967— 10.2%	$ 47,475— 11.2%
$ 26,236— 13.2%	$ 28,450— 12.1%	$ 32,167— 12.1%	$ 34,227— 11.4%
25,450— 32.3%	23,951— 27.2%	30,176— 28.2%	28,612— 23.1%
$ 51,686— 18.6%	$ 52,401— 16.2%	$ 62,343— 16.7%	$ 62,839— 14.8%
3.6 times	4.2 times	4.0 times	4.5 times
sq. ft. 1,800 $154.28 $4.20	sq. ft. 1,803 $179.16 $4.37	sq. ft. 2,111 $177.16 $4.56	sq. ft. 1,953 $217.12 $5.23
7,284— 47.5%	8,783— 47.6%	9,774— 47.8%	11,113— 47.5%
8,042— 52.5%	9,669— 52.4%	10,662— 52.2%	12,290— 52.5%
15,326—100.0%	18,452—100.0%	20,436—100.0%	23,403—100.0%
$12.97	$12.75	$13.06	$12.82
56 hours	56 hours	57 hours	58 hours
50 hours	52 hours	49 hours	50 hours
13 hours	17 hours	18 hours	30 hours

obvious explanation is that, in most categories, the proprietor worked more hours. Another influence may be the expanded use of auxiliary personnel and/or mechanical methods to increase productivity.

The hours a pharmacy is open and the hours worked by employed pharmacists may vary according to prescription activity and location. When management evaluates a pharmacy operation, it is suggested that data dealing with geographic region, location, and prescription activity be included in the review.

The average prescription charge rose 8.7% during 1985, to $13.04—up $1.04 from the previous year. The upward trend noted in the average prescription charge over the past several years is occasionally cited as evidence that prescription prices are rising. The statistics cannot support such a conclusion, since the average prescription charge includes other variables in addition to price—especially the number of doses dispensed. Figures in Table 3 suggest that the average prescription charge tends to rise as sales volume increases.

Table 3 *Summary of sales volume in 1985 (continued)*

Averages per Pharmacy	Total Sales $450,000 to $500,000 (114 Pharmacies)	Total Sales $500,000 to $600,000 (168 Pharmacies)
Sales		
Prescription	$325,460— 68.2%	$365,208— 67.4%
Other	151,498— 31.8%	176,575— 32.6%
Total	$476,958—100.0%	$541,783—100.0%
Cost of goods sold	322,656— 67.6%	361,319— 66.7%
Gross margin	$154,302— 32.4%	$180,464— 33.3%
Expenses		
Proprietor's or manager's salary	$ 31,018— 6.5%	$ 33,841— 6.2%
Employees' wages	42,593— 8.9%	53,443— 9.9%
Rent	11,092— 2.3%	12,712— 2.3%
Miscellaneous operating costs	55,164— 11.7%	65,951— 12.2%
Total expenses	$139,867— 29.4%	$165,947— 30.6%
Net profit (before taxes)	$ 14,435— 3.0%	$ 14,517— 2.7%
Add proprietor's withdrawals	31,018— 6.5%	33,841— 6.2%
Total income of self-employed proprietor (before taxes on income and profits)	$ 45,453— 9.5%	$ 48,358— 8.9%
Value of inventory at cost and as a percent of sales		
Prescription	$ 37,374— 11.5%	$ 39,981— 10.9%
Other	39,147— 25.8%	43,939— 24.9%
Total	$ 76,521— 16.0%	$ 83,920— 15.5%
Annual rate of turnover of inventory	4.2 times	4.3 times
	sq. ft.	sq. ft.
Size of area and sales per square foot*	2,584 $184.53	2,378 $227.84
Rent per square foot*	$4.29	$5.34
Number of prescriptions dispensed		
New	12,628— 50.4%	13,472— 48.0%
Renewed	12,416— 49.6%	14,571— 52.0%
Total	25,044—100.0%	28,043—100.0%
Prescription charge	$13.00	$13.02
Number of hours per week		
Pharmacy was open	60 hours	61 hours
Worked by proprietor	49 hours	48 hours
Worked by employed pharmacist(s)	26 hours	34 hours

*Based on averages of pharmacies that reported all data

Total Sales $600,000 to $750,000 (172 Pharmacies)	Total Sales $750,000 to $1,000,000 (148 Pharmacies)	Total Sales $1,000,000 to $1,500,000 (121 Pharmacies)	Total Sales over $1,500,000 (53 Pharmacies)
$440,333— 66.5%	$532,140— 61.6%	$ 653,499— 55.3%	$ 814,096— 41.6%
221,798— 33.5%	332,345— 38.4%	527,280— 44.7%	1,141,357— 58.4%
$662,131—100.0%	$864,485—100.0%	$1,180,779—100.0%	$1,955,453—100.0%
442,540— 66.8%	586,098— 67.8%	799,240— 67.7%	1,369,766— 70.0%
$219,591— 33.2%	$278,387— 32.2%	$ 381,539— 32.3%	$ 585,687— 30.0%
$ 40,387— 6.1%	$ 45,060— 5.2%	$ 49,751— 4.2%	$ 61,364— 3.1%
68,398— 10.3%	90,615— 10.5%	140,838— 11.9%	232,850— 11.9%
13,801— 2.1%	20,561— 2.4%	27,915— 2.4%	45,923— 2.3%
73,347— 11.1%	94,696— 10.9%	131,546— 11.1%	210,780— 10.9%
$195,933— 29.6%	$250,932— 29.0%	$ 350,050— 29.6%	$ 550,917— 28.2%
$ 23,658— 3.6%	$ 27,455— 3.2%	$ 31,489— 2.7%	$ 34,770— 1.8%
40,387— 6.1%	45,060— 5.2%	49,751— 4.2%	61,364— 3.1%
$ 64,045— 9.7%	$ 72,515— 8.4%	$ 81,240— 6.9%	$ 96,134— 4.9%
$ 42,603— 9.7%	$ 52,499— 9.9%	$ 57,814— 8.8%	$ 74,475— 9.1%
52,707— 23.8%	69,840— 21.0%	105,629— 20.0%	191,180— 16.8%
$ 95,310— 14.4%	$122,339— 14.2%	$ 163,443— 13.8%	$ 265,655— 13.6%
4.7 times	4.8 times	4.9 times	5.2 times
sq. ft. 2,919 $226.66	sq. ft. 3,525 $244.53	sq. ft. 4,579 $257.24	sq. ft. 6,638 $288.24
$4.73	$5.83	$6.10	$6.92
16,370— 49.6%	20,264— 50.9%	25,534— 50.1%	33,554— 54.1%
16,632— 50.4%	19,516— 49.1%	25,469— 49.9%	28,450— 45.9%
33,002—100.0%	39,780—100.0%	51,003—100.0%	62,004—100.0%
$13.34	$13.38	$12.81	$13.13
65 hours	68 hours	71 hours	78 hours
47 hours	49 hours	53 hours	49 hours
44 hours	56 hours	71 hours	102 hours

Prescription Activity

Table 4 shows operating data according to daily prescription activity. As the number of prescriptions dispensed daily rises, so does total sales volume. Interestingly, as prescription activity increases, gross margin tends to decline percentagewise; however, total expenses fall at an even faster rate, with the result that net profit before taxes increases. As expected, greater prescription volume requires additional professionals to handle the increased workload, resulting in more wage expense, which is reflected in higher total expenses. This increased need for professional personnel is reflected in the uptrend in employed pharmacist hours worked per week.

Prescriptions per pharmacist hour in the high-prescription-volume stores is substantially greater than in the less active pharmacies. This is simply because more prescriptions are available to be dispensed in the high-volume operations rather than the result of differences in pharmacists' efficiency. It is clear that para-professionals also play a significant role in productivity.

Inventory investment declines percentagewise as more prescriptions are dispensed. The inventory turnover rate shows steady improvement as prescription activity rises—from 3.1 to 6.0 times per year. Inventory dollar investment grows as prescription business advances. However, it is important to note that the sales productivity of this inventory also increases as daily prescription activity rises—from

Table 4 *Summary by number of prescriptions dispensed daily in 1985*

Averages per Pharmacy	Under 35 Prescriptions Daily (166 Pharmacies)	35 to 50 Prescriptions Daily (233 Pharmacies)
Sales		
Prescription	$133,485— 56.0%	$207,131— 60.4%
Other	104,710— 44.0%	135,685— 39.6%
Total	$238,195—100.0%	$342,816—100.0%
Cost of goods sold	154,840— 65.1%	226,772— 66.1%
Gross margin	$ 83,355— 34.9%	$116,044— 33.9%
Expenses		
Proprietor's or manager's salary	$ 24,147— 10.0%	$ 27,037— 7.9%
Employees' wages	21,313— 9.0%	29,405— 8.6%
Rent	7,656— 3.2%	9,624— 2.8%
Miscellaneous operating costs	30,002— 12.6%	41,319— 12.1%
Total expenses	$ 83,118— 34.8%	$107,385— 31.4%
Net profit (before taxes)	$ 237— 0.1%	$ 8,659— 2.5%
Add proprietor's withdrawals	24,147— 10.1%	27,037— 7.9%
Total income of self-employed proprietor (before taxes on income and profits)	$ 24,384— 10.2%	$ 35,696— 10.4%
Value of inventory at cost and as a percent of sales		
Prescription	$ 19,999— 14.9%	$ 26,608— 12.8%
Other	29,645— 28.3%	34,485— 25.4%
Total	$ 49,644— 20.8%	$ 61,093— 17.8%
Annual rate of turnover of inventory	3.1 times	3.7 times
Size of area and sales per square foot*	sq. ft. 1,924 $123.80	sq. ft. 2,160 $164.34
Rent per square foot*	$3.98	$4.45
Number of prescriptions dispensed		
New	4,633— 48.3%	7,546— 48.9%
Renewed	4,970— 51.7%	7,900— 51.1%
Total	9,603—100.0%	15,446—100.0%
Prescription charge	$13.90	$13.41
Number of hours per week		
Pharmacy was open	54 hours	57 hours
Worked by proprietor	51 hours	49 hours
Worked by employed pharmacist(s)	11 hours	22 hours

*Based on averages of pharmacies that reported all data

$6.67 in the lowest sales group to $11.48 in the highest.

Table 4 indicates that as prescription business grows, the renewed share of total prescriptions dispensed varies within a narrow range. Interestingly, the renewed prescription share is greater in the lower-volume stores, which suggests that customers in these operations tend to return there for their professional service more often than in the very large stores.

Most state laws require that a registered pharmacist be present whenever the pharmacy is open, even though the prescription workload may not warrant it. Therefore, the ratio of prescriptions dispensed per employed pharmacist hour can be low in pharmacies that dispense few prescriptions. With increasing sales volume and daily prescription activity, management's time may be devoted to nonprescription tasks, which results in the need for additional professional staff. Assuming that 75% of the proprietor's time was devoted to the professional area of the business, it can be calculated that 7.5 prescriptions per pharmacist hour were dispensed during 1985—the same figure as that reported for the previous year. In pharmacies with the highest daily prescription activity, output was about 12 prescriptions per pharmacist hour. This level of productivity is probably associated with more prescriptions available to better utilize pharmacists' time as well as with the use of pharmacy technicians and/or automated equipment.

50 to 60 Prescriptions Daily (167 Pharmacies)	60 to 75 Prescriptions Daily (220 Pharmacies)	75 to 100 Prescriptions Daily (261 Pharmacies)	100 to 150 Prescriptions Daily (227 Pharmacies)	Over 150 Prescriptions Daily (104 Pharmacies)
$276,355— 60.7%	$320,674— 60.4%	$402,914— 62.6%	$558,665— 64.2%	$ 867,352— 64.1%
179,061— 39.3%	210,185— 39.6%	240,221— 37.4%	311,778— 35.8%	485,636— 35.9%
$455,416—100.0%	$530,859—100.0%	$643,135—100.0%	$870,443—100.0%	$1,352,988—100.0%
304,924— 67.0%	357,242— 67.3%	435,728— 67.8%	588,211— 67.6%	925,437— 68.4%
$150,492— 33.0%	$173,617— 32.7%	$207,407— 32.2%	$282,232— 32.4%	$ 427,551— 31.6%
$ 30,205— 6.6%	$ 32,722— 6.2%	$ 39,110— 6.1%	$ 44,138— 5.1%	$ 55,015— 4.0%
42,291— 9.3%	49,957— 9.4%	65,152— 10.1%	94,940— 10.9%	154,978— 11.5%
11,092— 2.4%	13,803— 2.6%	14,713— 2.3%	19,968— 2.3%	26,399— 2.0%
54,842— 12.0%	61,840— 11.7%	70,392— 10.9%	95,816— 11.0%	148,212— 10.9%
$138,430— 30.3%	$158,322— 29.9%	$189,367— 29.4%	$254,862— 29.3%	$ 384,604— 28.4%
$ 12,062— 2.7%	$ 15,295— 2.8%	$ 18,040— 2.8%	$ 27,370— 3.1%	$ 42,947— 3.2%
30,205— 6.6%	32,722— 6.2%	39,110— 6.1%	44,138— 5.1%	55,015— 4.0%
$ 42,267— 9.3%	$ 48,017— 9.0%	$ 57,150— 8.9%	$ 71,508— 8.2%	$ 97,962— 7.2%
$ 33,627— 12.2%	$ 35,417— 11.0%	$ 42,009— 10.4%	$ 52,455— 9.4%	$ 75,569— 8.7%
45,081— 25.2%	47,248— 22.5%	52,696— 21.9%	67,692— 21.7%	77,314— 15.9%
$ 78,708— 17.3%	$ 82,665— 15.6%	$ 94,705— 14.7%	$120,147— 13.8%	$ 152,883— 11.3%
3.9 times	4.4 times	4.6 times	4.9 times	6.0 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
2,575 $183.47	2,593 $217.62	2,892 $233.08	3,127 $278.36	3,856 $350.88
$4.31	$5.32	$5.09	$6.39	$6.85
9,840— 49.3%	11,813— 48.9%	15,147— 49.0%	21,829— 50.5%	35,898— 50.7%
10,132— 50.7%	12,333— 51.1%	15,736— 51.0%	21,364— 49.5%	34,843— 49.3%
19,972—100.0%	24,146—100.0%	30,883—100.0%	43,193—100.0%	70,741—100.0%
$13.84	$13.28	$13.05	$12.93	$12.26
60 hours	61 hours	63 hours	66 hours	71 hours
48 hours	50 hours	48 hours	50 hours	49 hours
31 hours	29 hours	39 hours	54 hours	81 hours

Balance Sheet and Financial Ratio Trends

Most business managers would agree that, in addition to the income and expense statement, the balance sheet should also be regularly reviewed. Pharmacy owners should review the balance sheet as an investor would, relating income to the permanent funds invested and evaluating the overall liquidity and solvency of the business. The owner-investor can determine how effectively assets are being utilized by relating the asset and liability position to sales and profit figures. Financial ratios developed from balance sheet data can be used to measure the liquidity of the business, or its ability to meet current obligations; the profitability of the operation, or management's effective use of equity; and overall solvency of the firm, or its ability to finance capitalization.

Liquidity or Short-Term Capitalization—measures the pharmacy's ability to meet its current financial obligations. It also reflects the relationship between the firm's short-term financial obligations (current liabilities) and the source of monies to meet these requirements (current assets).

$$\textbf{CURRENT RATIO} = \frac{\text{Current Assets}\ (\text{Cash, notes, accounts receivable, and inventory})}{\text{Current Liabilities}\ (\text{Accounts and notes payable, due within one year})}$$

Many observers suggest that a current ratio of 2 to 1 is reasonable. This value would allow current assets to shrink 50% (as might happen with inventory) and still cover current obligations. The current ratio is also an indicator of the margin of safety that management maintains in order to allow for fluctuations in the flow of funds within the business during the year. Creditors are favorable to a high current ratio, since it suggests a wide margin of safety for any claims against the business. However, an extremely high ratio may indicate management is not using funds in the most productive way. Asset investment may be higher than necessary and, therefore, not generating a sufficient return. The current ratio for the average LILLY DIGEST pharmacy for 1985 was 3.2 to 1.

Profitability—measures how effective management has been in increasing the owner's equity.

$$\textbf{RETURN ON INVESTMENT} = \frac{\text{Net Profit}\ (\text{Gross margin} - \text{total expenses})}{\text{Net Worth}\ (\text{Total assets} - \text{total liabilities})}$$

The return-on-investment or return-on-equity calculation is considered the broadest measure of overall performance, since it indicates how well funds, as supplied by the owners, are being utilized.

Solvency or Long-Term Capitalization—is calculated by lenders in estimating the borrowing potential of a business and refers to the ability of a firm to meet the repayment schedule on long-term obligations.

$$\textbf{DEBT/EQUITY RATIO} = \frac{\text{Total Liabilities}}{\text{Net Worth}}$$

A pharmacy in which the total debt exceeds the owner's equity is quite vulnerable to major changes in the firm's operation. Such changes may be the result of a sudden or prolonged decline in sales or an increase in expenses. When the debt/equity ratio is low in comparison with that of similar operations, the pharmacy may not be leveraged to the best advantage.

$$\textbf{NET SALES TO NET WORTH} = \frac{\text{Net Sales}}{\text{Net Worth}}$$

This ratio examines the productivity of equity in terms of supporting sales. A higher ratio may imply inadequate owner's capitalization, or a highly leveraged firm. When the ratio is low, the operation is not realizing full use of its funds, and the owner's investment has become stagnant.

Table 5 *Balance sheet and financial ratios by pharmacy age as of December 31, 1985—sales under $400,000*

Averages per Pharmacy	Pharmacy Age under 2 Years (56 Pharmacies)	Percent of Sales	Pharmacy Age over 2 Years (320 Pharmacies)	Percent of Sales
Assets				
Current assets				
Cash	$ 6,685	2.8%	$ 9,503	3.3%
Accounts receivable	5,850	2.5%	9,030	3.1%
Inventory	43,401	18.1%	49,360	17.2%
Total current assets	$ 55,936	23.4%	$ 67,893	23.6%
Fixed assets				
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	11,235	4.7%	10,494	3.7%
Other assets				
Prepaid expenses, deposits, etc.	1,425	0.6%	4,445	1.5%
Total assets*	$ 68,596	28.7%	$ 82,832	28.8%
Liabilities				
Current and accrued liabilities				
Accounts payable	$ 6,670	2.8%	$ 9,630	3.4%
Notes payable (within one year)	9,208	3.9%	3,870	1.3%
Accrued expenses and other liabilities	4,297	1.8%	2,003	0.7%
Total current and accrued liabilities	$ 20,175	8.5%	$ 15,503	5.4%
Long-term liabilities				
Notes payable (later than one year)	18,499	7.7%	10,785	3.7%
Total liabilities	$ 38,674	16.2%	$ 26,288	9.1%
Net Worth	29,922	12.5%	56,544	19.7%
Total liabilities and net worth*	$ 68,596	28.7%	$ 82,832	28.8%
Net working capital	$ 35,761	14.9%	$ 52,390	18.2%
Sales	$239,449		$287,813	
Purchases	$156,112	65.2%	$191,511	66.5%
Net profit (before taxes)	$ 3,250	1.4%	$ 7,675	2.7%
Financial Ratios				
Current assets to current liabilities	2.8 times		4.4 times	
Net sales to net worth	8.0 times		5.1 times	
Net profit (before taxes) on net worth	10.9%		13.6%	
Total debt to net worth	129.3%		27.4%	

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

Pharmacies reporting balance sheet data were categorized by sales volume in Tables 5 and 6. Two categories, under and over $400,000, were used to divide these businesses' capitalization figures and financial ratios. Stores within each category are also divided according to age. The primary column for comparison in each category is that which expresses the components as percents of sales.

The tables show that when a pharmacy has been in business for more than two years, long-term liabilities decrease both dollarwise and as a percent of sales. As a pharmacy matures, it generates adequate funds to retire debt and build up net worth. Put another way, financing shifts from debt to equity. The net sales to net worth ratios show this, since they drop sharply as pharmacies age. Total debt to net worth indicates a similar trend.

Table 6 *Balance sheet and financial ratios by pharmacy age as of December 31, 1985—sales over $400,000*

Averages per Pharmacy	Pharmacy Age under 2 Years (34 Pharmacies)	Percent of Sales	Pharmacy Age over 2 Years (708 Pharmacies)	Percent of Sales
Assets				
Current assets				
Cash	$ 18,452	2.7%	$ 23,617	3.0%
Accounts receivable	22,533	3.3%	29,893	3.7%
Inventory	101,214	14.8%	113,964	14.3%
Total current assets	$142,199	20.8%	$167,474	21.0%
Fixed assets				
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	31,575	4.6%	24,240	3.0%
Other assets				
Prepaid expenses, deposits, etc.	4,201	0.6%	9,732	1.2%
Total assets*	$177,975	26.0%	$201,446	25.2%
Liabilities				
Current and accrued liabilities				
Accounts payable	$ 26,496	3.9%	$ 32,019	4.0%
Notes payable (within one year)	9,577	1.4%	10,940	1.4%
Accrued expenses and other liabilities	7,135	1.0%	9,799	1.2%
Total current and accrued liabilities	$ 43,208	6.3%	$ 52,758	6.6%
Long-term liabilities				
Notes payable (later than one year)	57,378	8.4%	23,095	2.9%
Total liabilities	$100,586	14.7%	$ 75,853	9.5%
Net Worth	77,389	11.3%	125,593	15.7%
Total liabilities and net worth*	$177,975	26.0%	$201,446	25.2%
Net working capital	$ 98,991	14.5%	$114,716	14.4%
Sales	$683,150		$798,966	
Purchases	$469,489	68.7%	$541,096	67.7%
Net profit (before taxes)	$ 18,206	2.7%	$ 23,114	2.9%
Financial Ratios				
Current assets to current liabilities	3.3 times		3.2 times	
Net sales to net worth	8.8 times		6.4 times	
Net profit (before taxes) on net worth	23.5%		18.4%	
Total debt to net worth	130.0%		60.4%	

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

The data also indicate that inventory levels decline percentagewise as a store ages, which suggests that through management's experience, purchases more closely correlate with customer demand. It is noteworthy that accounts receivable increase both in dollars and percentage as pharmacies mature. This is probably due to the extension of credit to patrons as management becomes more familiar with the customer base. Net working capital rises dollarwise in operations that are more than two years old.

Usually, return on investment is higher in newly established pharmacies, since most of the capital is borrowed, thus leaving a small equity. As businesses become older, financing shifts from debt to equity, and the return on investment declines and stabilizes at about 20%.

Net Profit

When a pharmacy continually shows a loss, the capital required to maintain normal operations must be borrowed. This adds interest expense that further reduces net profit. If too many losses are incurred, borrowing may become difficult, and, finally, lenders will refuse loans for these businesses. Without the required capital, either from lender's or owner's investment, such businesses will eventually fail, and their services will be lost to the community.

Table 7 indicates that 16% of all pharmacies reporting 1985 data to the LILLY DIGEST operated at a loss—up from 14% for 1984. In addition, 22% realized a net profit of less than 2%—the same percentage reported last year. At the other end of the profit range, 7% (in contrast to 8% in 1984) provided a net profit between 7.5% and 9.9%, and 10% of all pharmacies—1% lower than the figure reported for 1984—had a net profit before taxes amounting to 10% or more.

Turnover Comparison—Table 8 presents selected operating statistics from two groups of pharmacies—one with a high rate of inventory turnover and another with a low turnover rate. These figures show that by controlling inventory investment, thus maintaining a high turnover rate, pharmacy managers can improve their total income. Pharmacies in the high turnover group, on average, had smaller inventories; however, the cost of goods sold was higher, with the result that the gross margin was lower than in the low turnover group. The lower gross margin was more than compensated for by the lower costs associated with carrying a smaller inventory. Because of this expense control, pharmacies with the high turnover rate produced a higher total income.

Break-Even Point—The calculated break-even point for the 1,378 pharmacies reporting to the LILLY DIGEST was reached in 10.17 months, when 84.8% of total sales had been recorded; up from 10.01 months during 1984. At the break-even point, all fixed costs of operation for the year are covered as are the variable costs up to that time. All pharmacy costs are considered fixed except employees' wages, advertising, bad debts, and miscellaneous expenses. Beyond the break-even point, sales are reduced only by the variable costs incurred thereafter. The remainder is net profit. The break-even points for selected years are shown in terms of both time and sales:

Break-even Point	'85	'80	'75	'70
Months	10.17	9.9	9.7	9.5
Percent of Sales	84.8%	82.2%	81.2%	79.0%

Table 8 *Turnover comparison (percent of sales)*

	Fast Turnover (227 Pharmacies)	Slow Turnover (272 Pharmacies)
Total sales	100.0%	100.0%
Cost of goods sold	68.3%	65.2%
Gross margin	31.7%	34.8%
Employees' wages	9.2%	11.3%
Rent and miscellaneous expenses	12.4%	15.7%
Total expenses (less proprietor's salary)	21.6%	27.0%
Total income (proprietor's salary plus net profit)	10.1%	7.8%
Total inventory	7.8%	22.1%
Inventory turnover	8.7 times	2.9 times

Table 7 *Net profit according to sales size*

	Under $200,000	$200,000-$250,000	$250,000-$300,000	$300,000-$350,000	$350,000-$400,000	$400,000-$450,000	$450,000-$500,000	$500,000-$600,000	$600,000-$750,000	$750,000-$1,000,000	Over $1,000,000	This Year	Last Year
Number of Pharmacies	88	81	84	126	116	107	114	168	172	148	174	1,378	1,341
Net Profit as a Percent of Sales													
Operating at a loss	36%	24%	15%	17%	25%	12%	13%	17%	8%	10%	11%	16%	14%
Less than 2%	23	18	26	15	20	25	17	22	20	24	31	22	22
2% to 5%	15	33	25	25	21	21	40	30	36	34	33	30	30
5% to 7.5%	7	12	14	19	12	22	14	13	15	19	14	15	15
7.5% to 10%	4	2	8	10	14	10	7	6	10	4	5	7	8
10% and over	15	11	12	14	8	10	9	12	11	9	6	10	11

Rent

The average rental expense for all pharmacies submitting figures to the LILLY DIGEST rose 5.5% in dollars but was unchanged as a percent of sales during 1985. Although rent percentages fluctuated five times in the past decade, they have been within a very narrow range. One explanation of this stability over time is the long-term nature of rental agreements. These leases usually are based on sales, square footage, a flat rate, or some combination of these. Rent, like other expenses, should be kept in line with sales volume if an adequate net profit is to be maintained. A fair and equitable rental expenditure should be based on realistic sales and profit projections.

Table 9 summarizes rental expense as a percentage of sales according to sales size. The frequency distribution of rent expense has changed little from that reported last year. The majority of pharmacies—57.1% (down from 58.6% for 1984)—paid 2.5% of sales or less for rent. A total of 1,110, or 80.5% of participants, indicated they spent less than 3.5% of sales on rental expense.

Table 10 permits the evaluation of rent from several different points of view.

Section A shows the effect of sales volume on rent. As sales rise, rent tends to decline as a percent of sales. In larger pharmacies, rent is higher in dollars, but sales productivity per square foot is also greater.

Section B correlates rental expense with pharmacy location. The largest stores are located in shopping centers. These generate the highest sales volumes. However, the most productive space per square foot is in medical buildings, where the rent per square foot is also the highest.

Section C indicates that, as daily prescription activity advances, there is an increase in sales volume, and rent tends to decline percentagewise. These trends closely parallel those found in Section A.

Section D shows the effect of store age on rent. Sales volume expands as a pharmacy matures. Rental expense also increases in dollars but declines as a percent of sales. Young pharmacies tend to be smaller in size and pay fewer dollars for rent. However, newer operations spend more per square foot on rent and also pay a larger share of the sales dollar for rent. This is probably because they have yet to reach their full sales potential. As stores mature, they become larger in size, generate more sales per square foot, and pay less rent per square foot.

Section E illustrates rent expense according to geographic region. Pharmacies in the Pacific States paid the highest rent per square foot of space, whereas the East South Central States spent the least. During 1985, the New England States generated the highest average sales from the least space, resulting in the greatest sales per square foot. Pharmacies in this region paid over $7 a square foot for rent; however, as a percent of sales, their rental expense was among the lowest at 2.1%.

Table 9 *Rental percentages by sales size*

	Under $200,000	$200,000-$250,000	$250,000-$300,000	$300,000-$350,000	$350,000-$400,000	$400,000-$450,000	$450,000-$500,000	$500,000-$600,000	$600,000-$750,000	$750,000-$1,000,000	Over $1,000,000	Total	Percent of Pharmacies
Number of Pharmacies	88	81	84	126	116	107	114	168	172	148	174	1,378	100.0%
Rent as a Percent of Sales													
Less than 1.5%	10	17	23	41	29	24	25	51	48	41	42	351	25.5%
1.5% to 2.5%	11	21	20	31	38	43	48	55	65	42	62	436	31.6%
2.5% to 3.5%	23	22	21	29	28	23	23	35	39	37	43	323	23.4%
3.5% to 4.5%	17	10	10	11	9	6	12	15	12	14	13	129	9.4%
4.5% to 5.5%	6	3	3	2	6	6	5	4	5	10	7	57	
5.5% to 6.5%	6	6	3	10	3	3	—	3	3	3	3	43	
6.5% to 7.5%	3	—	2	1	2	2	1	2	—	1	2	16	
7.5% to 8.5%	5	1	1	—	—	—	—	2	—	—	2	11	
8.5% to 9.5%	4	1	—	1	—	—	—	—	—	—	—	6	10.1%
9.5% to 10.5%	—	—	—	—	—	—	—	1	—	—	—	1	
10.5% to 11.5%	1	—	—	—	—	—	—	—	—	—	—	1	
11.5% to 12.5%	1	—	—	—	—	—	—	—	—	—	—	1	
12.5% and over	1	—	1	—	1	—	—	—	—	—	—	3	

Table 10 *Rent correlated with various factors*

	Average Sales	Size of Pharmacy (Sq. Ft.)*	Sales per Square Foot	Average Rent	Rent per Square Foot	Rent Percentage
A Annual Sales						
Under $200,000	$ 158,259	1,269	$123.99	$ 6,275	$4.94	4.0%
$200,000 to $250,000	222,077	1,607	138.09	6,207	3.86	2.8%
$250,000 to $300,000	277,495	1,800	154.28	7,567	4.20	2.7%
$300,000 to $350,000	323,287	1,803	179.16	7,876	4.37	2.4%
$350,000 to $400,000	373,759	2,111	177.16	9,629	4.56	2.6%
$400,000 to $450,000	424,002	1,953	217.12	10,208	5.23	2.4%
$450,000 to $500,000	476,958	2,584	184.53	11,092	4.29	2.3%
$500,000 to $600,000	541,783	2,378	227.84	12,712	5.34	2.3%
$600,000 to $750,000	662,331	2,919	226.66	13,801	4.73	2.1%
$750,000 to $1,000,000	864,485	3,525	244.53	20,561	5.83	2.4%
$1,000,000 to $1,500,000	1,180,779	4,579	257.24	27,915	6.10	2.4%
Over $1,500,000	1,955,453	6,638	288.24	45,923	6.92	2.3%
B Location						
Downtown	$ 615,855	2,683	$242.07	$12,896	$4.81	2.1%
Neighborhood	553,669	2,708	211.32	11,652	4.30	2.1%
Shopping Center	761,286	3,665	216.05	22,553	6.15	3.0%
Medical Office Building	411,358	844	487.39	13,103	15.52	3.2%
C Number of Prescriptions Dispensed Daily						
Under 35	$ 238,195	1,924	$123.80	$ 7,656	$3.98	3.2%
35 to 50	342,816	2,160	164.34	9,624	4.45	2.8%
50 to 60	455,416	2,575	183.47	11,092	4.31	2.4%
60 to 75	530,859	2,593	217.62	13,803	5.32	2.6%
75 to 100	643,135	2,892	233.08	14,713	5.09	2.3%
100 to 150	870,443	3,127	278.36	19,968	6.39	2.3%
Over 150	1,352,988	3,856	350.88	26,399	6.85	2.0%
D Number of Years Pharmacy Has Been in Operation						
Less than 2 years	$ 395,903	1,950	$203.01	$11,985	$6.15	3.0%
2 to 5 years	476,128	2,290	207.95	12,304	5.37	2.6%
5 to 10 years	526,120	2,467	213.29	13,213	5.36	2.5%
Over 10 years	676,291	2,980	226.91	15,417	5.17	2.3%
E Geographic Region						
New England States	$ 724,008	2,136	$301.51	$15,382	$7.20	2.1%
Middle Atlantic States	695,982	2,505	276.89	14,580	5.82	2.1%
East North Central States	679,147	2,983	230.36	15,634	5.24	2.3%
West North Central States	507,472	2,445	199.02	10,745	4.39	2.1%
South Atlantic States	554,409	2,573	215.83	12,182	4.73	2.2%
East South Central States	480,127	2,416	196.38	10,141	4.20	2.1%
West South Central States	485,233	2,256	211.53	12,621	5.59	2.6%
Mountain States	580,638	3,593	162.01	16,067	4.47	2.8%
Pacific States	628,530	2,752	224.70	20,688	7.52	3.3%
LILLY DIGEST Average	593,918	2,672	219.98	14,166	5.30	2.4%

*Based on averages of pharmacies that reported all data

Geographic Summary

Geographic location has an influence on the operating data of pharmacies (Table 11). It has been suggested that sales and expenses are altered by regional factors, such as the cost of living, population density, competition, pharmacy manpower, and possibly state health programs.

As reported in previous issues of the DIGEST, the Pacific States had the highest average prescription charge. During 1985, they also posted the highest gross margin, total wage package, rent, and total expense percentage figures of any region. T North Central States reported the lowest fi gross margin, total wage package, and tota expenses.

The New England States recorded the grea ber of prescriptions dispensed, whereas the tain States reported the fewest. Pharmacies Middle Atlantic States were open for busine most hours.

Table 11 *Summary by geographic regions in 1985*

Geographic Region	Total Sales ($000)	Ratio of Prescription Sales to Total Sales	Gross Margin	Total Wage Package
New England States (CT, ME, MA, NH, RI, VT)	$724.0	58.2%	32.3%	16.2%
Middle Atlantic States (NJ, NY, PA)	$696.0	61.2%	31.1%	15.7%
East North Central States (IL, IN, MI, OH, WI)	$679.1	60.1%	31.0%	15.3%
West North Central States (IA, KS, MN, MO, NE, ND, SD)	$507.5	61.7%	31.9%	15.7%
South Atlantic States (DE, DC, FL, GA, MD, NC, SC, VA, WV)	$554.4	66.1%	33.3%	16.7%
East South Central States (AL, KY, MS, TN)	$480.1	74.1%	34.2%	17.1%
West South Central States (AR, LA, OK, TX)	$485.2	72.7%	34.7%	16.4%
Mountain States (AZ, CO, ID, MT, NV, NM, UT, WY)	$580.6	47.3%	32.3%	15.4%
Pacific States (AK, CA, HI, OR, WA)	$628.5	60.3%	35.7%	17.3%
LILLY DIGEST Average	$593.9	62.2%	32.6%	16.1%

The East South Central States had the highest ratio of prescription revenue to total sales and the highest net profit percentage, even though they recorded the lowest average prescription charge.

Pharmacies in the New England States posted the smallest inventory investment and net profit when expressed as percentages of sales. The Mountain States reported the lowest ratio of prescription income to total sales and the highest inventory figure.

Table 11 was prepared to permit comparison between regions. It is suggested that management first compare the pharmacy's operating statistics with data in the "Self-Analysis" section of the DIGEST (pages 31 to 39). Regional information may then be used to explain variations from these usual averages.

Rent	Total Expenses	Net Profit	Inventory at Cost	Number of Prescriptions	Average Prescription Charge	Pharmacy Hours Open per Week	Employed Pharmacist(s) Hours Worked per Week
2.1%	30.1%	2.2%	12.5%	34,874	$12.08	66	45
2.1%	28.7%	2.4%	13.8%	33,219	$12.82	69	40
2.3%	28.6%	2.4%	14.8%	31,667	$12.90	64	46
2.1%	29.4%	2.5%	16.6%	23,674	$13.22	60	31
2.2%	29.8%	3.5%	14.0%	29,382	$12.47	61	37
2.1%	30.5%	3.7%	14.0%	29,994	$11.87	60	26
2.6%	31.3%	3.4%	15.4%	25,041	$14.09	57	26
2.8%	29.7%	2.6%	17.7%	20,561	$13.37	62	40
3.3%	32.8%	2.9%	15.0%	25,570	$14.82	57	34
2.4%	29.8%	2.8%	14.9%	28,347	$13.04	62	36

Long-Term-Care Pharmacy Operations

Selected operating statistics from LILLY DIGEST participants who said they provided pharmacy service to long-term-care facilities are shown in Table 12. The data are arranged according to the volume of nursing-home business reported by community pharmacies. Pharmacies that recorded higher volumes of long-term-care business had higher gross margins. However, total expenses for these units were also higher, with the result that net profit was lower as a percent of sales.

The number of hours open for business, as well as manager and employed pharmacist hours worked, were quite similar regardless of sales volume. The larger-volume stores reported more space but were located in neighborhood areas as were the lower-volume operations. The pharmacies with greater sales also reported a somewhat lower average prescription charge.

In general, consultant pharmacist services averaged three to four hours per week to serve approximately two homes at the rate of about $11 per hour. It should be noted that the higher-volume pharmacies served more than twice the number of patients when compared with the lower-sales-volume stores. These operations also dispensed more than three times the number of long-term-care prescriptions than their smaller-volume counterparts. To make these data easier to use, consultant hours are expressed in terms of hours per 100 patients. Consultant time (per 100 patients per week) amounted to 3.5 hours per week for lower-volume pharmacies but was 5.6 hours among stores with higher income.

The consultant charge per nursing-home prescription dispensed was lower in operations with the higher volume of business, probably because of economies of scale.

Compared with those submitting data in past years, the larger pharmacies serving long-term-care facilities appear to have become more concentrated in neighborhood locations. They have grown in size, but business hours have declined somewhat. The number of patients served by these pharmacies also seems to have declined, as has their volume of nursing-home prescription activity. The average prescription charge rose about 11% in these stores during 1985. For higher-volume long-term-care pharmacies, consultant charge per hour increased close to 10% from the previous year. The smaller-volume group did not appear to be comparable.

Table 12 *Long-term-care pharmacy operations*

Averages per Pharmacy	Long-Term-Care Billing Under $25,000/Year (184 Pharmacies)	Long-Term-Care Billing Over $25,000/Year (148 Pharmacies)
Prescription sales	$385,499— 64.5%	$441,023— 63.9%
Other sales	212,283— 35.5%	249,451— 36.1%
Total sales	$597,782—100.0%	$690,474—100.0%
Cost of goods sold	403,399— 67.5%	463,726— 67.2%
Gross margin	$194,383— 32.5%	$226,748— 32.8%
Total expenses	178,982— 29.9%	209,890— 30.4%
Net profit (before taxes)	$ 15,401— 2.6%	$ 16,858— 2.4%
Prescriptions dispensed per year	29,628	34,632
Pharmacy hours open per week	61	60
Total floor area	2,604 sq. ft.	2,888 sq. ft.
Manager hours per week	49	52
Employed pharmacist hours per week	46	46
Location	Neighborhood	Neighborhood
Average prescription charge	$13.01	$12.73
Facilities served	1.7	2.0
Patients served	54	114
Consultant hours per week	3.5	5.6
Consultant hours per 100 patients per week	3	4
Consultant charge per hour	$11.10	$11.07
Long-term-care prescriptions dispensed per year	1,910	6,965
Consultant charge per prescription dispensed	91 cents	33 cents
Sales per square foot	$229.56	$239.08

Pharmacy Location

The distribution of DIGEST pharmacies according to location as well as operating statistics for those locations is presented in Table 13. No significant deviation was found in the distribution of retail pharmacies when compared with 1984 data, although neighborhood settings have increased somewhat during the past several years.

Shopping center locations again accounted for the highest average sales and the largest floor area and remained open the longest business hours. These units also dispensed the largest number of prescriptions and had the most employed pharmacist hours worked per week. Their net profit slipped from 2.6% of sales for 1984 to 2.1% during 1985 because of a lower gross margin and higher percentage of total expenses.

Neighborhood pharmacies reported a slight increase in net profit dollars and percentage in comparison with 1984 figures. This was the result of a rise in gross margin sufficient to offset the increase in total expenses, so that net profit before taxes advanced to 2.9% of sales. These stores also paid the fewest dollars per square foot for rent. Pharmacies in neighborhoods reported the lowest average prescription charge of any location.

As in previous editions of the DIGEST, the highest net profit and fewest weekly hours open were recorded by medical office building pharmacies. These outlets also had the highest gross margin percentage and average prescription charge. Rental expense per square foot is highest for these pharmacies. The inventory turnover rate for these type of pharmacies was best of any location, at 5.6 times per year.

Table 13 *Summary of pharmacy operations according to location*

Averages per Pharmacy	Downtown (328 Pharmacies)	Neighborhood (615 Pharmacies)	Shopping Center (208 Pharmacies)	Medical Office Building (116 Pharmacies)
Sales				
Prescription	$373,033— 60.6%	$351,782— 63.5%	$396,918— 52.1%	$367,497— 89.3%
Other	242,822— 39.4%	201,887— 36.5%	364,368— 47.9%	43,861— 10.7%
Total	$615,855—100.0%	$553,669—100.0%	$761,286—100.0%	$411,358—100.0%
Cost of goods sold	418,512— 68.0%	373,086— 67.4%	516,699— 67.9%	262,624— 63.8%
Gross margin	$197,343— 32.0%	$180,583— 32.6%	$244,587— 32.1%	$148,734— 36.2%
Expenses				
Proprietor's or manager's salary	$ 34,655— 5.6%	$ 34,095— 6.2%	$ 39,525— 5.2%	$ 33,850— 8.2%
Employees' wages	64,140— 10.4%	55,043— 9.9%	83,087— 10.9%	35,165— 8.6%
Rent	12,896— 2.1%	11,652— 2.1%	22,553— 3.0%	13,103— 3.2%
Miscellaneous operating costs	69,891— 11.3%	63,693— 11.5%	83,422— 10.9%	45,984— 11.2%
Total expenses	$181,582— 29.4%	$164,483— 29.7%	$228,587— 30.0%	$128,102— 31.2%
Net profit (before taxes)	$ 15,761— 2.6%	$ 16,100— 2.9%	$ 16,000— 2.1%	$ 20,632— 5.0%
Add proprietor's withdrawals	34,655— 5.6%	34,095— 6.2%	39,525— 5.2%	33,850— 8.2%
Total income of self-employed proprietor (before taxes on income and profits)	$ 50,416— 8.2%	$ 50,195— 9.1%	$ 55,525— 7.3%	$ 54,482— 13.2%
Value of inventory at cost and as a percent of sales				
Prescription	$ 39,124— 10.5%	$ 37,229— 10.6%	$ 41,594— 10.5%	$ 40,187— 10.9%
Other	50,729— 20.9%	48,604— 24.1%	77,580— 21.3%	6,548— 14.9%
Total	$ 89,853— 14.6%	$ 85,833— 15.5%	$119,174— 15.7%	$ 46,735— 11.4%
Annual rate of turnover of inventory	4.7 times	4.4 times	4.4 times	5.6 times
	sq. ft.	sq. ft.	sq. ft.	sq. ft.
Size of area and sales per square foot*	2,683 $242.07	2,708 $211.32	3,665 $216.05	844 $487.39
Rent per square foot*	$4.80	$4.30	$6.15	$15.52
Number of prescriptions dispensed				
New	14,037— 49.0%	13,010— 47.5%	15,516— 51.5%	14,417— 55.2%
Renewed	14,590— 51.0%	14,353— 52.5%	14,598— 48.5%	11,686— 44.8%
Total	28,627—100.0%	27,363—100.0%	30,114—100.0%	26,103—100.0%
Prescription charge	$13.03	$12.86	$13.18	$14.08
Number of hours per week				
Pharmacy was open	63 hours	61 hours	67 hours	49 hours
Worked by proprietor	50 hours	49 hours	49 hours	45 hours
Worked by employed pharmacist(s)	37 hours	35 hours	43 hours	38 hours

*Based on averages of pharmacies that reported all data

Operating Trends

Ten-Year Trends in Pharmacy Operations—Total sales continued their uptrend during 1985, as shown in Chart 1. Sales volume for 1985 grew 4% over the previous year. This was lower than the average annual growth rate of 9.2%.

Changes in pharmacy operating figures, expressed in dollars, for each of the last ten years are presented in Table 14. Dollarwise, gross margin has risen steadily since 1976 (up over 78%). Total expenses also have risen over the period but at a faster rate (up about 81%). The result is that, although net profit before taxes rose approximately 50% in dollars, it has shown a steady decline from 3.6% of sales in 1976 to 2.8% for 1985. For the first time since 1972, profit fell in dollars when compared with that of t previous year. Proprietor's salary has advanced almost 56% since 1976, whereas employees' wa have grown more than 66% over the ten-year period. Rental expense in dollars has risen substa tially over the decade but has remained relatively constant as a percent of sales, in the 2.4% range Inventory at cost advanced more than 73% over ten years. However, the inventory turnover rate exhibited an improving trend until 1983. Since th it has appeared to stabilize at the rate of 4.6 time per year—the best rate of the decade.

Chart 1

A Decade of Sales Growth

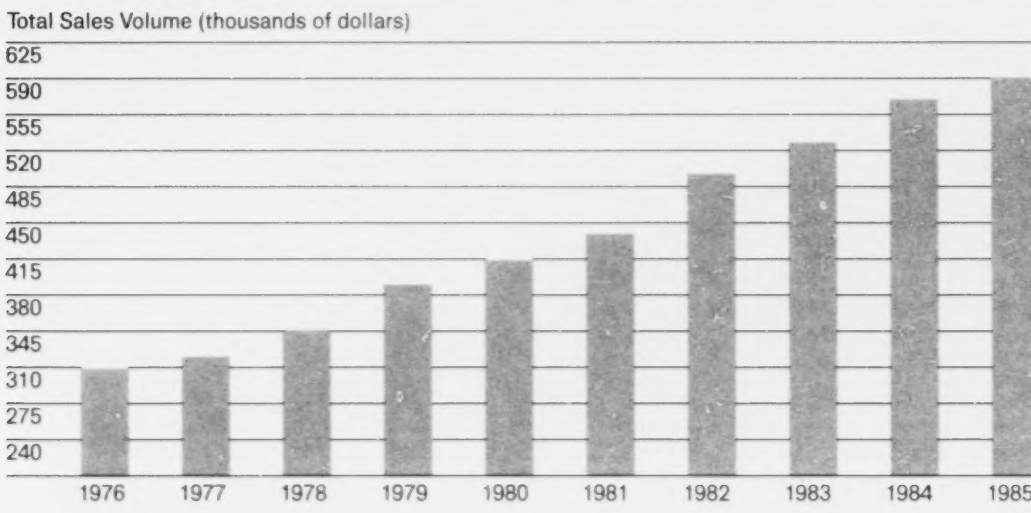


Table 14 *Averages of pharmacy operations—1976-1985 (based on all pharmacies reporting)*

Expressed in Dollars

Year	Sales	Cost of Goods Sold	Gross Margin	Proprietor's Salary	Employees' Wages	Rent	Other Expenses	Total Expenses	Net Profit	Invento at Co
1976	$309,725	$200,871	$108,854	$22,597	$36,417	$ 7,758	$31,072	$ 97,844	$11,010	$51,0
1977	322,755	209,954	112,801	22,622	38,063	8,080	33,013	101,778	11,023	53,3
1978	345,302	225,651	119,651	23,896	39,914	8,436	35,938	108,184	11,467	56,9
1979	391,681	257,334	134,347	25,346	46,759	9,783	40,844	122,732	11,615	64,0
1980	416,161	273,390	142,771	26,001	49,128	10,127	43,731	128,987	13,784	67,0
1981	439,133	288,421	150,712	27,983	50,689	10,886	47,181	136,739	13,973	68,7
1982	498,021	330,577	167,444	29,965	56,454	12,018	54,439	152,876	14,568	76,2
1983	528,864	353,673	175,191	31,775	57,323	12,489	58,104	159,691	15,500	78,9
1984	571,313	382,757	188,556	33,301	60,126	13,428	64,326	171,181	17,375	85,4
1985	593,918	400,255	193,663	35,196	60,316	14,166	67,422	177,100	16,563	88,3

Table 15 *Ten-year balance sheet trends*

	1985	1983	1981	1979	1977	1975
	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales
Assets						
Current assets						
Cash	3.5%	3.4%	3.2%	3.3%	3.8%	4.1%
Accounts receivable	4.1%	3.7%	3.8%	3.8%	3.9%	4.0%
Inventory	15.3%	15.3%	16.0%	16.4%	16.4%	16.5%
Total current assets	22.9%	22.4%	23.0%	23.5%	24.1%	24.6%
Fixed assets						
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	4.1%	3.8%	3.7%	3.9%	3.8%	3.7%
Other assets						
Prepaid expenses, deposits, etc.	1.4%	1.4%	1.5%	1.5%	1.4%	1.6%
Total assets*	28.4%	27.6%	28.2%	28.9%	29.3%	29.9%
Liabilities						
Current and accrued liabilities						
Accounts payable	4.3%	4.3%	4.5%	4.6%	4.7%	4.9%
Notes payable (within one year)	1.7%	1.5%	1.6%	1.6%	1.6%	1.5%
Accrued expenses and other liabilities	1.1%	1.6%	1.6%	1.5%	1.5%	1.6%
Total current and accrued liabilities	7.1%	7.4%	7.7%	7.7%	7.8%	8.0%
Long-term liabilities						
Notes payable (later than one year)	4.9%	4.4%	4.3%	4.2%	4.1%	3.7%
Total liabilities	12.0%	11.8%	12.0%	11.9%	11.9%	11.7%
Net Worth	16.4%	15.8%	16.2%	17.0%	17.4%	18.2%
Total liabilities and net worth*	28.4%	27.6%	28.2%	28.9%	29.3%	29.9%
Net working capital	15.8%	15.0%	15.3%	15.7%	16.2%	16.6%
Sales ($000)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Purchases	67.1%	67.5%	66.7%	66.6%	66.5%	66.0%
Net profit (before taxes)	3.3%	3.4%	3.3%	3.5%	3.6%	3.7%
Financial Ratios						
Current assets to current liabilities	3.2 times	3.0 times	3.0 times	3.0 times	3.1 times	3.1 times
Net sales to net worth	6.1 times	6.3 times	6.2 times	5.9 times	5.8 times	5.5 times
Net profit (before taxes) on net worth	20.0%	21.2%	20.6%	20.7%	20.8%	20.5%
Total debt to net worth	74.1%	74.6%	74.2%	71.3%	69.5%	64.4%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

Ten-Year Trends of Balance Sheet and Financial Ratio Data—Table 15 shows the ten-year trends of balance sheet data, expressed as a percent of sales, along with selected financial ratio figures for a comparable period. Fixed assets have been relatively constant at about 3.8% during the decade, which indicates that funding for fixtures and equipment has been restrained. Owners may not be reinvesting earnings in new capital equipment because of the decline in net profit, the main source of retained earnings. However, during 1985, the fixed assets figure rose to 4.1% of sales. Future editions of the DIGEST will confirm whether this is the beginning of a new trend. Since interest rates for borrowed funds have declined recently, there may be a renewed interest in capital investment. The overall decline in net worth and in net working capital as shares of sales during the past decade may have reversed, since both measures are up for the second consecutive year.

Financial ratio statistics show that the current ratio has remained relatively constant at around three times for most of the past decade. However, 1984 and 1985 have uptrended to 3.2 times. This suggests that the typical pharmacy proprietor has had sufficient monies to satisfy current financial obligations. As shown by the trend in the net sales to net worth ratio, DIGEST pharmacies have become more highly leveraged, and owners may not be putting funds into the business to the extent seen earlier in the period. The return-on-investment ratio has varied within a very narrow range throughout most of the decade—in the range of 21%. However, during 1985 the return on investment for the average pharmacy was at 20%—the lowest of the ten-year period. The two ratios suggest the impact of declining net profit on equity.

Analysis Work Sheet

If you would like to have the Lilly Analysis Service analyze your financial information for 1986, just complete the participation form that will be **mailed to you early in January of 1987.** If you would like an immediate analysis of your present financial information, participation forms are available from Department MC-698, Eli Lilly and Company, Indianapolis, Indiana 46285.

If you wish to perform your own analysis, this work sheet will be useful . . .
fill in and compare

Income and Expense Statement	Current Data (Dollars)	Current Data (% of Sales)	Last Year's Data (% of Sales)	Lilly Digest Data (Comparable Category) (see page 31)	Notes (◆ or ◆)
Net sales	$	%	%	%	
Cost of goods sold	$	%	%	%	
Gross margin (net sales less cost of goods sold)	$	%	%	%	
Expenses					
Proprietor's or manager's salary	$	%	%	%	
Employees' wages	$	%	%	%	
Rent	$	%	%	%	
Heat, light, and power	$	%	%	%	
Accounting, legal, and other professional fees	$	%	%	%	
Taxes (except on buildings, income, and profit) and licenses	$	%	%	%	
Insurance (except on buildings)	$	%	%	%	
Interest paid	$	%	%	%	
Repairs	$	%	%	%	
Delivery	$	%	%	%	
Advertising	$	%	%	%	
Depreciation (except on buildings)	$	%	%	%	
Bad debts charged off	$	%	%	%	
Telephone	$	%	%	%	
Miscellaneous	$	%	%	%	
Total expenses	$	%	%	%	
Net operating profit (gross margin less total expenses)	$	%	%	%	

Balance Sheet	Current Data (Dollars)	Current Data (% of Sales)	Last Year's Data (% of Sales)	Lilly Digest Data (Comparable Category) (see pages 18-20)	Notes (◆ or ◆)
Current assets	$	%	%	%	
Fixed assets	$	%	%	%	
Total assets	$	%	%	%	
Current liabilities	$	%	%	%	
Long-term liabilities	$	%	%	%	
Total liabilities	$	%	%	%	
Net worth	$	%	%	%	

Other Calculations	Current Data	Last Year's Data	Lilly Digest Data (Comparable Categories) (see pages 31 and 18-20)	Notes (◆ or ◆)
Inventory turnover	times	times	times	
Prescription sales/prescription inventory	$	$	$	
Average prescription charge	$	$	$	
Number of prescriptions				
Current assets/current liabilities	times	times	times	
Net sales/net working capital	times	times	times	
Long-term liabilities/net working capital	%	%	%	
Accounts payable outstanding	days	days	days	
Net profit/net worth	%	%	%	

THE SELF-ANALYSIS SECTION OF THE LILLY DIGEST

This section contains 22 summaries of operating averages arranged according to both annual sales volume and daily prescription activity (Tables 16 through 19). A generally accepted accounting format is used to display the operating data so that comparisons can be made with any pharmacy's figures.

Table 16 *Sales under $350,000*

Averages per Pharmacy	Total Sales (88 Pharmacies)		Total Sales (81 Pharmacies)	
Sales				
Prescription	$124,280	78.5%	$170,101	76.6%
Other	33,979	21.5%	51,976	23.4%
Total	$158,259	100.0%	$222,077	100.0%
Cost of goods sold	101,803	64.3%	144,052	64.9%
Gross margin	$ 56,456	35.7%	$78,025	35.1%
Expenses				
Proprietor's or manager's salary	$ 20,610	13.0%	$ 23,573	10.6%
Employees' wages	9,479	6.0%	16,096	7.2%
Rent	6,275	4.0%	6,207	2.8%
Heat, light, and power	1,876	1.2%	2,550	1.1%
Accounting, legal, and other professional fees	900	0.6%	1,270	0.6%
Taxes (except on buildings, income, and profit) and licenses	2,249	1.4%	2,913	1.3%
Insurance (except on buildings)	1,553	1.0%	2,410	1.1%
Interest paid	1,888	1.2%	3,148	1.4%
Repairs	611	0.4%	1,212	0.6%
Delivery	969	0.6%	1,088	0.5%
Advertising	1,708	1.1%	2,508	1.1%
Depreciation (except on buildings)	1,855	1.2%	3,276	1.5%
Bad debts charged off	324	0.2%	257	0.1%
Telephone	1,028	0.6%	1,410	0.6%
Miscellaneous	4,046	2.5%	5,900	2.7%
		12.0%		12.6%
Total expenses	$ 55,371	35.0%	$ 73,818	33.2%
Net profit (before taxes)	$ 1,085	0.7%	$ 4,207	1.9%
Add proprietor's withdrawals	20,610	13.0%	23,573	10.6%
Total income of self-employed proprietor (before taxes on income and profits)	$ 21,695	13.7%	$ 27,780	12.5%
Value of inventory at cost and as a percent of sales				
Prescription	$ 18,915	15.2%	$ 22,141	13.0%
Other	9,203	27.1%	16,687	32.1%
Total	$ 28,118	17.8%	$ 38,828	17.5%
Annual rate of turnover of inventory	3.6 times		3.7 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.	
Prescription	311	$395.55	402	$423.36
Other	958	35.70	1,205	43.01
Total	1,269	123.99	1,607	138.09
Number of prescriptions dispensed				
New	5,028	50.4%	6,693	48.8%
Renewed	4,950	49.6%	7,010	51.2%
Total	9,978	100.0%	13,703	100.0%
Prescription charge	$12.46		$12.41	
Number of hours per week				
Pharmacy was open	51 hours		53 hours	
Worked by proprietor	48 hours		49 hours	
Worked by employed pharmacist(s)	5 hours		17 hours	
Sales and prescription activity per pharmacy hours open				
Prescription sales	$46.86		$61.72	
Other sales	$12.81		$18.86	
Prescriptions dispensed	3.7		5.0	

*Based on averages of pharmacies that reported all data

Total Sales	Total Sales	
$250,000-$300,000	$300,000-$350,000	
(84 Pharmacies)	Under 50 Prescriptions Daily (66 Pharmacies)	Over 50 Prescriptions Daily (60 Pharmacies)
$198,771— 71.6%	$202,700— 62.7%	$271,213— 83.8%
78,724— 28.4%	120,359— 37.3%	52,326— 16.2%
$277,495—100.0%	$323,059—100.0%	$323,539—100.0%
184,806— 66.6%	212,412— 65.8%	216,759— 67.0%
$ 92,689— 33.4%	$110,647— 34.2%	$106,780— 33.0%
$ 26,670— 9.6%	$ 29,314— 9.1%	$ 27,911— 8.6%
19,873— 7.2%	28,883— 8.9%	22,155— 6.8%
7,567— 2.7%	8,314— 2.6%	7,395— 2.3%
2,944— 1.1%	3,790— 1.2%	2,604— 0.8%
1,621— 0.6%	1,497— 0.5%	1,278— 0.4%
3,348— 1.2%	4,371— 1.3%	3,539— 1.1%
2,961— 1.1%	3,045— 0.9%	2,526— 0.8%
2,543— 0.9%	4,228— 1.3%	3,697— 1.1%
1,091— 0.4%	1,549— 0.5%	1,037— 0.3%
1,429— 0.5%	1,325— 0.4%	1,455— 0.5%
2,720— 1.0%	3,537— 1.1%	3,049— 0.9%
3,410— 1.2%	4,935— 1.5%	4,701— 1.5%
414— 0.1%	608— 0.2%	484— 0.1%
1,422— 0.5%	1,703— 0.5%	1,310— 0.4%
7,083— 2.6%	9,068— 2.8%	8,350— 2.6%
11.2%	12.2%	10.5%
$ 85,096— 30.7%	$106,167— 32.8%	$ 91,491— 28.2%
$ 7,593— 2.7%	$ 4,480— 1.4%	$ 15,289— 4.8%
26,670— 9.6%	29,314— 9.1%	27,911— 8.6%
$ 34,263— 12.3%	$ 33,794— 10.5%	$ 43,200— 13.4%
$ 26,236— 13.2%	$ 25,650— 12.7%	$ 31,531— 11.6%
25,450— 32.3%	34,327— 28.5%	12,536— 24.0%
$ 51,686— 18.6%	$ 59,977— 18.6%	$ 44,067— 13.6%
3.6 times	3.7 times	4.9 times
sq. ft.	sq. ft.	sq. ft.
336 $592.58	349 $585.02	446 $609.64
1,464 53.77	1,790 66.44	981 52.22
1,800 154.28	2,139 151.03	1,427 226.49
7,284— 47.5%	6,737— 46.7%	11,034— 48.2%
8,042— 52.5%	7,692— 53.3%	11,843— 51.8%
15,326—100.0%	14,429—100.0%	22,877—100.0%
$12.97	$14.05	$11.86
56 hours	57 hours	55 hours
50 hours	54 hours	50 hours
13 hours	16 hours	18 hours
$68.26	$68.39	$94.83
$27.03	$40.61	$18.30
5.3	4.9	8.0

Table 17 *Sales $350,000–$500,000*

Averages per Pharmacy	Total Sales $350,000-$400,000		Under 50 Prescriptions Daily (37 Pharmacies)		Over 50 Prescriptions Daily (79 Pharmacies)	
Sales						
Prescription	$221,024	59.5%	$288,440	77.0%		
Other	150,601	40.5%	86,318	23.0%		
Total	$371,625	100.0%	$374,758	100.0%		
Cost of goods sold	246,091	66.2%	250,152	66.8%		
Gross margin	$125,534	33.8%	$124,606	33.2%		
Expenses						
Proprietor's or manager's salary	$ 27,427	7.4%	$ 29,090	7.8%		
Employees' wages	32,534	8.8%	28,695	7.7%		
Rent	12,112	3.3%	8,466	2.3%		
Heat, light, and power	4,002	1.1%	3,420	0.9%		
Accounting, legal, and other professional fees	2,641	0.7%	2,129	0.6%		
Taxes (except on buildings, income, and profit) and licenses	5,687	1.5%	6,289	1.7%		
Insurance (except on buildings)	4,025	1.1%	4,064	1.0%		
Interest paid	3,981	1.1%	4,512	1.2%		
Repairs	1,798	0.5%	1,919	0.5%		
Delivery	1,766	0.5%	1,614	0.4%		
Advertising	4,214	1.1%	3,321	0.9%		
Depreciation (except on buildings)	5,834	1.6%	6,136	1.6%		
Bad debts charged off	617	0.1%	362	0.1%		
Telephone	2,242	0.6%	2,123	0.5%		
Miscellaneous	10,681	2.8%	11,449	3.1%		
		12.7%		12.5%		
Total expenses	$119,561	32.2%	$113,589	30.3%		
Net profit (before taxes)	$ 5,973	1.6%	$ 11,017	2.9%		
Add proprietor's withdrawals	27,427	7.4%	29,090	7.8%		
Total income of self-employed proprietor — (before taxes on income and profits)	$ 33,400	9.0%	$ 40,107	10.7%		
Value of inventory at cost and as a percent of sales						
Prescription	$ 28,655	13.0%	$ 33,812	11.7%		
Other	42,679	28.3%	24,321	26.2%		
Total	$ 71,334	19.2%	$ 58,133	15.5%		
Annual rate of turnover of inventory	3.5 times		4.3 times			
Size of area and sales per square foot*	sq. ft.		sq. ft.			
Prescription	305	$741.68	447	$642.66		
Other	2,173	67.03	1,482	59.16		
Total	2,478	150.10	1,929	194.31		
Number of prescriptions dispensed						
New	7,074	48.3%	11,039	47.7%		
Renewed	7,577	51.7%	12,107	52.3%		
Total	14,651	100.0%	23,146	100.0%		
Prescription charge	$15.09		$12.46			
Number of hours per week						
Pharmacy was open	56 hours		58 hours			
Worked by proprietor	47 hours		50 hours			
Worked by employed pharmacist(s)	22 hours		17 hours			
Sales and prescription activity per pharmacy hour open						
Prescription sales	$75.90		$95.64			
Other sales	$51.72		$28.62			
Prescriptions dispensed	5.0		7.7			

*Based on averages of pharmacies that reported all data

Total Sales			
$400,000-$450,000			
Under 75 Prescriptions Daily (76 Pharmacies)		Over 75 Prescriptions Daily (31 Pharmacies)	
$274,813—	65.0%	$361,845—	84.8%
148,048—	35.0%	64,956—	15.2%
$422,861—	100.0%	$426,801—	100.0%
276,538—	65.4%	285,246—	66.8%
$146,323—	34.6%	$141,555—	33.2%
$ 29,715—	7.0%	$ 31,540—	7.4%
40,938—	9.7%	35,460—	8.3%
9,956—	2.4%	10,825—	2.5%
3,609—	0.9%	3,721—	0.9%
2,293—	0.5%	1,770—	0.4%
6,650—	1.6%	6,196—	1.5%
4,792—	1.1%	3,527—	0.8%
4,065—	1.0%	2,153—	0.5%
1,541—	0.4%	1,532—	0.4%
1,897—	0.4%	1,993—	0.5%
4,411—	1.0%	3,858—	0.9%
6,415—	1.5%	6,591—	1.5%
537—	0.1%	836—	0.2%
2,169—	0.5%	1,728—	0.4%
10,372—	2.5%	11,934—	2.8%
$129,360—	30.6%	$123,664—	29.0%
$ 16,963—	4.0%	$ 17,891—	4.2%
29,715—	7.0%	31,540—	7.4%
$ 46,678—	11.0%	$ 49,431—	11.6%
$ 33,077—	12.0%	$ 37,046—	10.2%
35,694—	24.1%	11,252—	17.3%
$ 68,771—	16.3%	$ 48,298—	11.3%
	4.1 times		5.9 times
sq. ft.		sq. ft.	
377	$729.65	481	$759.65
1,718	86.19	1,108	54.92
2,095	202.02	1,589	268.31
9,692—	47.3%	14,594—	47.8%
10,808—	52.7%	15,925—	52.2%
20,500—	100.0%	30,519—	100.0%
	$13.41		$11.86
	58 hours		58 hours
	49 hours		51 hours
	32 hours		25 hours
	$91.12		$119.98
	$49.09		$21.54
	6.8		10.1

Total Sales			
$450,000-$500,000			
Under 75 Prescriptions Daily (71 Pharmacies)		Over 75 Prescriptions Daily (43 Pharmacies)	
$289,791—	60.8%	$384,356—	80.5%
186,874—	39.2%	93,086—	19.5%
$476,665—	100.0%	$477,442—	100.0%
324,545—	68.1%	319,535—	66.9%
$152,120—	31.9%	$157,907—	33.1%
$ 29,968—	6.3%	$ 32,753—	6.9%
44,897—	9.4%	38,789—	8.1%
11,119—	2.3%	11,046—	2.3%
5,036—	1.1%	3,655—	0.8%
2,541—	0.5%	1,742—	0.4%
6,738—	1.4%	6,708—	1.4%
4,930—	1.0%	4,504—	0.9%
5,015—	1.1%	3,573—	0.8%
2,127—	0.5%	1,765—	0.4%
1,668—	0.4%	2,366—	0.5%
6,159—	1.3%	5,022—	1.1%
7,744—	1.6%	7,137—	1.5%
581—	0.1%	1,349—	0.3%
1,988—	0.4%	2,122—	0.4%
11,928—	2.5%	13,087—	2.7%
$142,439—	29.9%	$135,618—	28.5%
$ 9,681—	2.0%	$ 22,289—	4.6%
29,968—	6.3%	32,753—	6.9%
$ 39,649—	8.3%	$ 55,042—	11.5%
$ 36,549—	12.6%	$ 38,737—	10.1%
50,299—	26.9%	20,734—	22.3%
$ 86,848—	18.2%	$ 59,471—	12.5%
	3.7 times		5.4 times
sq. ft.		sq. ft.	
375	$775.57	458	$834.56
2,520	73.70	1,631	58.06
2,895	164.70	2,089	228.38
10,444—	50.6%	16,232—	50.2%
10,196—	49.4%	16,083—	49.8%
20,640—	100.0%	32,315—	100.0%
	$14.04		$11.89
	61 hours		58 hours
	50 hours		48 hours
	26 hours		25 hours
	$91.36		$127.44
	$58.91		$30.86
	6.5		10.7

Table 18 *Sales $500,000–$750,000*

	Total Sales $500,000-$600,000	
	Under 75 Prescriptions Daily (75 Pharmacies)	Over 75 Prescriptions Daily (93 Pharmacies)
Sales		
Prescription	$289,871— 53.9%	$425,963— 78.2%
Other	248,035— 46.1%	118,946— 21.8%
Total	$537,906—100.0%	$544,909—100.0%
Cost of goods sold	356,445— 66.3%	365,249— 67.0%
Gross margin	$181,461— 33.7%	$179,660— 33.0%
Expenses		
Proprietor's or manager's salary	$ 33,176— 6.2%	$ 34,378— 6.3%
Employees' wages	52,083— 9.7%	54,541— 10.0%
Rent	14,374— 2.7%	11,372— 2.1%
Heat, light, and power	5,602— 1.0%	3,922— 0.7%
Accounting, legal, and other professional fees	2,563— 0.5%	2,688— 0.5%
Taxes (except on buildings, income, and profit) and licenses	10,010— 1.9%	8,426— 1.6%
Insurance (except on buildings)	6,659— 1.2%	5,991— 1.1%
Interest paid	7,232— 1.3%	5,687— 1.0%
Repairs	2,229— 0.4%	2,048— 0.4%
Delivery	2,429— 0.5%	2,176— 0.4%
Advertising	6,879— 1.3%	4,763— 0.9%
Depreciation (except on buildings)	8,540— 1.6%	7,195— 1.3%
Bad debts charged off	1,195— 0.2%	961— 0.2%
Telephone	1,966— 0.3%	2,245— 0.4%
Miscellaneous	16,045— 3.0%	15,493— 2.9%
	13.2%	11.4%
Total expenses	$170,982— 31.8%	$161,886— 29.8%
Net profit (before taxes)	$ 10,479— 1.9%	$ 17,774— 3.2%
Add proprietor's withdrawals	33,176— 6.2%	34,378— 6.3%
Total income of self-employed proprietor (before taxes on income and profits)	$ 43,655— 8.1%	$ 52,152— 9.5%
Value of inventory at cost and as a percent of sales		
Prescription	$ 34,121— 11.8%	$ 44,707— 10.5%
Other	59,425— 24.0%	31,449— 26.4%
Total	$ 93,546— 17.4%	$ 76,156— 13.9%
Annual rate of turnover of inventory	3.8 times	4.8 times
Size of area and sales per square foot*	sq. ft.	sq. ft.
Prescription	376 $768.60	398 $1,070.26
Other	2,490 100.04	1,579 75.33
Total	2,866 187.67	1,977 275.62
Number of prescriptions dispensed		
New	10,465— 50.3%	15,897— 46.9%
Renewed	10,351— 49.7%	17,974— 53.1%
Total	20,816—100.0%	33,872—100.0%
Prescription charge	$13.93	$12.58
Number of hours per week		
Pharmacy was open	63 hours	59 hours
Worked by proprietor	50 hours	45 hours
Worked by employed pharmacist(s)	34 hours	33 hours
Sales and prescription activity per pharmacy hour open		
Prescription sales	$88.48	$138.84
Other sales	$75.71	$ 38.77
Prescriptions dispensed	6.3	11.0

*Based on averages of pharmacies that reported all data

Total Sales

$600,000-$750,000

Under 75 Prescriptions Daily (53 Pharmacies)		75 to 100 Prescriptions Daily (54 Pharmacies)		Over 100 Prescriptions Daily (65 Pharmacies)	
$305,664—	46.5%	$447,533—	68.0%	$544,158—	81.3%
351,067—	53.5%	210,948—	32.0%	125,410—	18.7%
$656,731—	100.0%	$658,481—	100.0%	$669,568—	100.0%
443,390—	67.5%	437,525—	66.4%	446,013—	66.6%
$213,341—	32.5%	$220,956—	33.6%	$223,555—	33.4%
$ 33,164—	5.0%	$ 43,185—	6.6%	$ 43,952—	6.6%
70,563—	10.7%	70,146—	10.7%	65,180—	9.7%
15,547—	2.4%	13,900—	2.1%	12,295—	1.8%
6,094—	0.9%	5,702—	0.9%	3,844—	0.6%
3,600—	0.6%	2,987—	0.5%	2,824—	0.4%
10,586—	1.6%	11,146—	1.7%	9,932—	1.5%
6,757—	1.0%	6,984—	1.0%	6,336—	0.9%
6,574—	1.0%	4,018—	0.6%	4,389—	0.7%
2,554—	0.4%	2,575—	0.4%	2,017—	0.3%
2,228—	0.3%	3,136—	0.5%	2,848—	0.4%
7,943—	1.2%	6,349—	1.0%	5,259—	0.8%
10,266—	1.6%	7,361—	1.1%	8,450—	1.3%
560—	0.1%	792—	0.1%	901—	0.1%
2,382—	0.4%	2,991—	0.5%	2,345—	0.4%
21,219—	3.2%	18,033—	2.7%	19,214—	2.9%
	12.3%		11.0%		10.3%
$200,037—	30.4%	$199,305—	30.4%	$189,786—	28.4%
$ 13,304—	2.1%	$ 21,651—	3.2%	$ 33,769—	5.0%
33,164—	5.0%	43,185—	6.6%	43,952—	6.6%
$ 46,468—	7.1%	$ 64,836—	9.8%	$ 77,721—	11.6%
$ 31,700—	10.4%	$ 43,245—	9.7%	$ 50,960—	9.4%
81,980—	23.4%	51,922—	24.6%	29,489—	23.5%
$113,680—	17.3%	$ 95,167—	14.5%	$ 80,449—	12.0%
	4.0 times		4.7 times		5.6 times
sq. ft.		sq. ft.		sq. ft.	
377	$812.89	434	$1,037.11	472	$1,156.09
3,744	93.44	2,530	81.77	1,383	90.28
4,121	159.21	2,964	221.56	1,855	361.32
10,788—	50.0%	15,884—	50.2%	21,324—	49.1%
10,788—	50.0%	15,746—	49.8%	22,134—	50.9%
21,576—	100.0%	31,630—	100.0%	43,458—	100.0%
	$14.17		$14.15		$12.52
	67 hours		66 hours		63 hours
	47 hours		47 hours		46 hours
	43 hours		46 hours		43 hours
	$ 87.73		$130.40		$166.10
	$100.77		$ 61.47		$ 38.28
	6.2		9.2		13.3

Table 19 *Sales $750,000–over $1,500,000*

	Total Sales $750,000-$1,000,000	
	Under 100 Prescriptions Daily (60 Pharmacies)	100 to 125 Prescriptions Daily (37 Pharmacies)
Sales		
Prescription	$378,672— 44.7%	$552,234— 64.4%
Other	468,903— 55.3%	304,900— 35.6%
Total	$847,575—100.0%	$857,134—100.0%
Cost of goods sold	580,925— 68.5%	576,988— 67.3%
Gross margin	$266,650— 31.5%	$280,146— 32.7%
Expenses		
Proprietor's or manager's salary	$ 45,586— 5.4%	$ 43,126— 5.0%
Employees' wages	87,134— 10.3%	91,592— 10.7%
Rent	21,880— 2.6%	21,057— 2.5%
Heat, light, and power	7,836— 0.9%	7,800— 0.9%
Accounting, legal, and other professional fees	3,941— 0.5%	3,093— 0.4%
Taxes (except on buildings, income, and profit) and licenses	12,980— 1.5%	13,481— 1.6%
Insurance (except on buildings)	8,479— 1.0%	9,589— 1.1%
Interest paid	7,488— 0.9%	6,533— 0.8%
Repairs	3,521— 0.4%	3,122— 0.4%
Delivery	2,221— 0.3%	2,948— 0.3%
Advertising	10,383— 1.2%	9,669— 1.1%
Depreciation (except on buildings)	10,568— 1.3%	10,994— 1.3%
Bad debts charged off	913— 0.1%	1,356— 0.1%
Telephone	2,949— 0.3%	3,495— 0.4%
Miscellaneous	22,242— 2.6%	24,140— 2.8%
	11.0%	11.2%
Total expenses	$248,121— 29.3%	$251,995— 29.4%
Net profit (before taxes)	$ 18,529— 2.2%	$ 28,151— 3.3%
Add proprietor's withdrawals	45,586— 5.4%	43,126— 5.0%
Total income of self-employed proprietor (before taxes on income and profits)	$ 64,115— 7.6%	$ 71,277— 8.3%
Value of inventory at cost and as a percent of sales		
Prescription	$ 41,313— 10.9%	$ 56,084— 10.2%
Other	94,907— 20.2%	73,900— 24.2%
Total	$136,220— 16.1%	$129,984— 15.2%
Annual rate of turnover of inventory	4.3 times	4.5 times
Size of area and sales per square foot*	sq. ft.	sq. ft.
Prescription	505 $749.85	399 $1,386.00
Other	3,884 120.73	3,202 94.18
Total	4,389 193.11	3,601 237.45
Number of prescriptions dispensed		
New	13,747— 50.9%	20,572— 52.4%
Renewed	13,276— 49.1%	18,667— 47.6%
Total	27,023—100.0%	39,239—100.0%
Prescription charge	$14.01	$14.07
Number of hours per week		
Pharmacy was open	69 hours	69 hours
Worked by proprietor	48 hours	48 hours
Worked by employed pharmacist(s)	52 hours	48 hours
Sales and prescription activity per pharmacy hour open		
Prescription sales	$105.54	$153.91
Other sales	$130.69	$ 84.98
Prescriptions dispensed	7.5	10.9

*Based on averages of pharmacies that reported all data

Total Sales $1,000,000-$1,500,000				Total Sales Over $1,500,000			
Over 125 Prescriptions Daily (51 Pharmacies)		Under 125 Prescriptions Daily (53 Pharmacies)		Over 125 Prescriptions Daily (68 Pharmacies)		(53 Pharmacies)	
$698,111	78.5%	$ 484,182	41.4%	$ 785,468	66.0%	$ 814,096	41.6%
191,601	21.5%	684,380	58.6%	404,832	34.0%	1,141,357	58.4%
$889,712	100.0%	$1,168,562	100.0%	$1,190,300	100.0%	$1,955,453	100.0%
598,794	67.3%	795,477	68.1%	802,173	67.4%	1,369,766	70.0%
$290,918	32.7%	$ 373,085	31.9%	$ 388,127	32.6%	$ 585,687	30.0%
$ 45,846	5.2%	$ 44,361	3.8%	$ 53,952	4.5%	$ 61,364	3.1%
94,001	10.6%	147,704	12.6%	135,486	11.4%	232,850	11.9%
18,652	2.1%	31,903	2.7%	24,807	2.1%	45,923	2.3%
5,237	0.6%	11,166	1.0%	8,472	0.7%	13,926	0.7%
3,220	0.3%	4,831	0.4%	5,029	0.4%	6,697	0.3%
13,533	1.5%	19,051	1.6%	19,153	1.6%	30,103	1.5%
8,840	1.0%	10,369	0.9%	12,530	1.1%	16,943	0.9%
5,590	0.6%	7,231	0.6%	6,688	0.6%	10,050	0.5%
3,566	0.4%	4,766	0.4%	4,435	0.4%	7,044	0.4%
4,029	0.5%	3,473	0.3%	4,007	0.3%	5,008	0.3%
7,821	0.9%	17,982	1.6%	12,480	1.0%	24,705	1.3%
11,648	1.3%	12,925	1.1%	13,630	1.1%	18,730	1.0%
2,366	0.2%	929	0.1%	2,140	0.2%	1,711	0.1%
3,396	0.4%	3,756	0.3%	4,161	0.3%	5,065	0.3%
25,723	2.9%	30,365	2.6%	42,486	3.6%	70,798	3.6%
$253,468	28.5%	$ 350,812	30.0%	$ 349,456	29.3%	$ 550,917	28.2%
$ 37,450	4.2%	$ 22,273	1.9%	$ 38,671	3.3%	$ 34,770	1.8%
45,846	5.2%	44,361	3.8%	53,952	4.5%	61,364	3.1%
$ 83,296	9.4%	$ 66,634	5.7%	$ 92,623	7.8%	$ 96,134	4.9%
$ 63,060	9.0%	$ 45,882	9.5%	$ 67,114	8.5%	$ 74,475	9.1%
37,402	19.5%	144,873	21.2%	75,042	18.5%	191,179	16.7%
$100,462	11.3%	$ 190,755	16.3%	$ 142,156	11.9%	$ 265,654	13.6%
6.1 times		4.2 times		5.7 times		5.2 times	
sq. ft.		sq. ft.		sq. ft.		sq. ft.	
665	$1,045.38	473	$1,023.64	592	$1,309.73	591	$1,377.49
1,728	110.80	4,738	144.44	3,490	118.35	6,056	188.47
2,393	370.38	5,211	224.25	4,082	291.17	6,647	294.19
27,707	50.2%	17,961	52.0%	31,437	49.3%	33,555	54.1%
27,473	49.8%	16,604	48.0%	32,379	50.7%	28,450	45.9%
55,180	100.0%	34,565	100.0%	63,816	100.0%	62,005	100.0%
$12.65		$14.01		$12.31		$13.13	
65 hours		74 hours		69 hours		78 hours	
49 hours		59 hours		48 hours		49 hours	
67 hours		72 hours		71 hours		102 hours	
$206.54		$125.83		$218.92		$200.71	
$ 56.69		$177.85		$112.83		$281.40	
16.3		9.0		17.7		15.3	

10.6%
10.9%
11.3%
10.9%

Conclusion

The trends that characterized independent community pharmacy operations in the early seventies and eighties continue in the marketplace. Total sales reached an all-time high. However, the cost of goods sold continued to increase its share of the sales dollar, with the result that net profit is in decline.

The good news is that the professional area of the business attained a new record high in sales revenue. The prescription department accounted for more than 62 cents of every total sales dollar during 1985. This department has been a major contributor to the financial success of community pharmacy operations, and pharmacists must make every effort to ensure the department's growth and vitality.

Pharmacists should take heed, though. The drugstore is more than a place to fill one's prescription. It is a community institution where residents find medicine, friendly advice, and a host of products that make life easier or more pleasant. It seems the most successful practitioners recognize this and stock the variety and quality of inventory along with the sincere and well-meaning treatment that people keep coming back for.

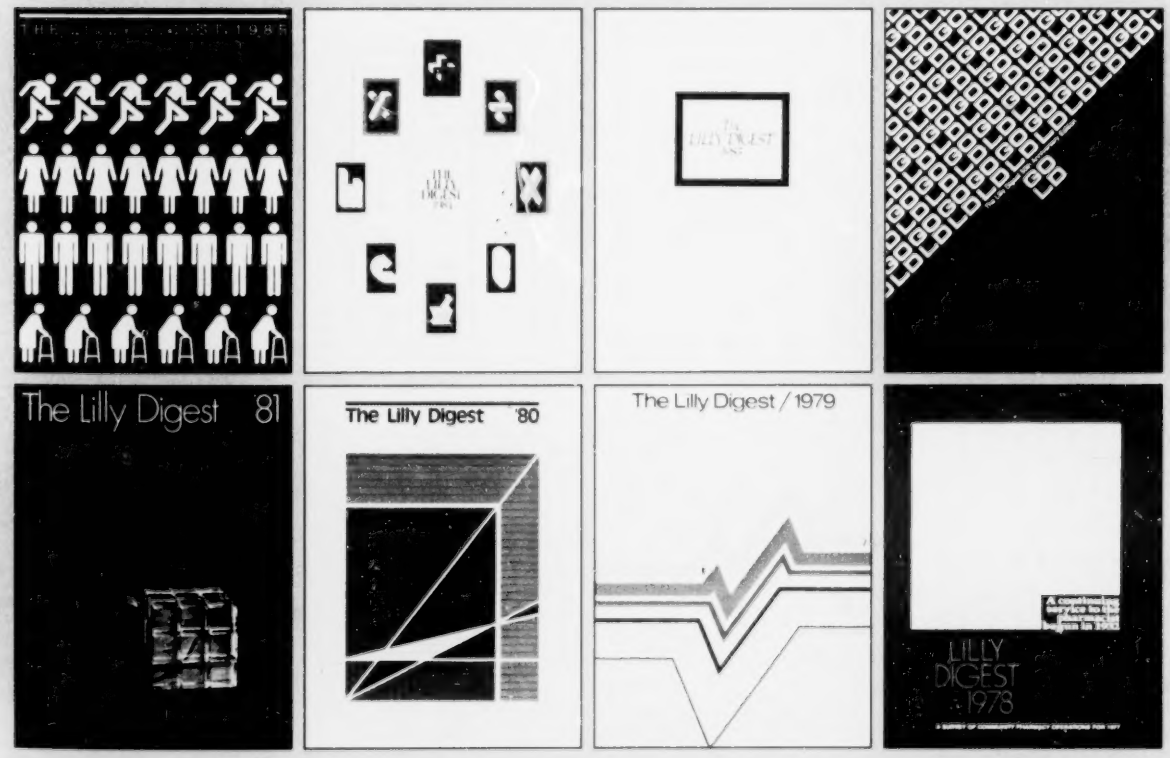
Lilly Analysis Service

A pharmacy's financial statement reflects the strengths and weaknesses of management's policies. It is extremely important that the information found in these statements be properly interpreted and utilized. Pharmacy management can more easily find problem areas and provide solutions by reviewing a pharmacy's financial figures on a regular basis. Such a methodical approach identifies problems early when they can be corrected easily, rather than waiting for them to become unwieldy and difficult to solve. A constant need for good information is at the heart of a well-managed business.

The Lilly Analysis Service is designed to support management's financial review. Operating data from any community pharmacy will be analyzed at no charge. The service is available to any pharmacist upon request, and all information is kept *strictly confidential.*

After a pharmacy's figures are received, they are audited and computerized. The printouts are then analyzed by staff experts, the comments are typed, and the completed reports are mailed directly to the designated addresses. Names need not be given if the address is adequate.

The object of the report is to identify areas that may present potential problems and, if appropriate, offer suggestions for improvement that may be considered. Operating areas that seem to be performing quite satisfactorily will also be identified. To receive a *free personal and confidential* analysis, contact the Lilly Analysis Service, Department MC-698, Eli Lilly and Company, Indianapolis, Indiana 46285.



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